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Mongolia
Country Assistance Evaluation

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Abbreviations and Acronyms

AAA	Analytical and Advisory Activities
ADB	Asian Development Bank
BESAC	Banking and Enterprise Adjustment Credit
CAE	Country Assistance Evaluation
CAS	Country Assistance Strategy
CEM	Country Economic Memorandum
CIB	Credit Information Bureau
CG	Consultative Group
CMEA	Council for Mutual Economic Assistance
DCU	Democratic Union Coalition
EAP	East Asia and the Pacific Region
EBRD	European Bank for Reconstruction and Development
ERC	Economic Recovery Credit
ESW	Economic and Sector Work
ETSC	Economic Transition Support Credit
FIAS	Foreign Investment Advisory Service
FSAC	Financial Sector Adjustment Credit
FY	Fiscal Year
GDP	Gross Domestic Product
GEF	Global Environment Facility
GNP	Gross National Product
ICR	Implementation Completion Report
ID	Institutional Development
IDA	International Development Association
IFC	International Finance Corporation
IMF	International Monetary Fund
MARA	Mongolian Asset Recovery Agency
MIGA	Multilateral Investment Guarantee Agency
MPRP	Mongolian People's Revolutionary Party
NGO	Non-Governmental Organization
NPAP	National Poverty Alleviation Program
OED	Operations Evaluation Department
PAR	Performance Audit Report
PCR	Project Completion Report
PLSA	Participatory Living Standards Assessment
SAC/L	Structural Adjustment Credit/Loan
SB	Savings Bank
SME	Small-and Medium-Scale Enterprises
TA	Technical Assistance
UNDP	United Nations Development Program
USAID	United States Agency for International Development
USSR	Union of Soviet Socialist Republics

Director General, Operations Evaluation	:	Mr. Gregory K. Ingram
Director, Operations Evaluation Department	:	Mr. Ajay Chhibber
Senior Manager, Country Evaluation and Regional Relations	:	Mr. R. Kyle Peters
Task Manager	:	Mr. Asita De Silva

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Preface

This is the Country Assistance Evaluation (CAE) for Mongolia. The aim of the report is to review the Bank's experience in the country over the past decade, assess the performance of Bank assistance, and develop recommendations for use in the design and implementation of future country assistance strategies.

This report is part of a new approach developed by OED to evaluate Bank country assistance programs. Three modules dealing with different perspectives, or dimensions, of Bank assistance have been developed: (a) the *Products and Services Dimension,* where a "bottom-up" analytical approach to the major Bank Group inputs is adopted: lending, economic and sector work, strategic advice, aid coordination, and resource mobilization; (b) the *Development Impact Dimension,* where a "top-down" analytical approach is taken; (c) the *Attribution Dimension,* where the evaluator assesses responsibility for the impact of the country assistance program across four sets of actors: the Bank, its aid partners and stakeholders, the client country, and exogenous factors.

The final *outcome* rating of the assistance program reflects an investigation into the *relevance* of its primary objectives in contributing toward a resolution of one or more of the key constraints hampering the client country's development; the program's *efficacy* in having achieved its major relevant objectives with minimal shortcomings; and its *efficiency* in containing the costs per unit of benefit delivered. Annex E describes the methodological approach.

The statistical tables (Annex A) have been updated to reflect the latest data and may differ slightly from the data in the text.

Preparation of the report benefited from the inputs of numerous current and former Bank staff who worked on Mongolia over the past decade. Views and information obtained from current and former government officials and representatives of the private sector, NGOs, and other donors in Mongolia are also reflected in the report. Comments from the Bank's East Asia and Pacific Regional Office have also been reflected.

This report was prepared by Asita De Silva (Task Manager) with contributions from Elliott Hurwitz (Consultant). This evaluation also benefited from comments of peer reviewers: Mr. Gene Tidrick and Mr. John Johnson. Professor Peter Murrell (University of Maryland) was the external peer reviewer. Dinara Seijaparova provided research assistance. Betty Casely-Hayford and Janice Joshi provided administrative support.

Summary

1. Mongolia is a former socialist country, land-locked between Russia and China. With 2.5 million inhabitants and an area almost the size of Mexico, it is the most sparsely populated country in the world, and with a 1999 per capita income of US$390, among the poorest countries in East Asia. Assets include gold and copper deposits; some 30 million livestock, which provide raw materials for cashmere, wool, meat, and leather products; and proximity to large potential markets in China and Russia. Major development constraints include a lack of market-oriented institutions resulting from 70 years of isolation; a small domestic market; distance from a seaport; protective barriers to key markets; and a highly dispersed rural population, a rugged terrain, and severe weather, which together contribute to the high costs of public service and infrastructure provision.

2. Mongolia's transition experience since 1991 has been positive, but difficult. Significant progress was made toward the goal of replacing the command economy with a market-driven one, although considerable challenges remain in furthering the policies, institutions, and behaviors required to achieve broad-based and sustainable growth. During the decade, Mongolia stabilized the economy in the face of a series of external shocks and implanted a range of reforms including removal of most price controls, privatization of small and medium industries, and changes in laws and regulations to enable private sector activity. A positive supply response to these reforms was seen by 1995 in the form of increased investment in gold, greater livestock production, and an increase in small-scale service and trading activities in urban areas. Along with significant public infrastructure investments, these activities contributed to an average annual GDP growth of 3 percent a year since 1994 and a rise in GDP per capita from US$330 in 1995 to US$390 in 1999. However, the sources of growth have remained narrow, yielding only limited public revenues and employment and they have not reduced Mongolia's vulnerability to shocks. Since 1995, the percent of poor has remained constant at 36 percent of the population, while income inequality increased. Limited urban employment opportunities and declining public social services have yielded apparent public discontent with social and economic conditions.

3. The Bank made a positive contribution to progress in the 1990s, although its influence in several important areas was limited. Among its positive impacts were: an easier transition and avoidance of a collapse in key public services and industries in the early 1990s; improved macroeconomic management; an improved legal and regulatory framework; and income support to a large number of poor. At the same time, efforts to help remove some key policy and institutional impediments to sustainable growth met with less success: key elements of the enabling environment for private investment are still lacking; interventions in energy, direct transfers, and public transport conferred immediate benefits but did not stimulate broader sustainable changes in the respective sectors; assistance in banking and enterprises proved inadequate to address extensive underlying problems. The outcome of Bank assistance is thus rated as partially satisfactory, institutional development as modest, and sustainability as unlikely.

4. Factors underlying the Bank's positive contribution include a strong commitment at senior government levels to the general direction of reforms; timely Bank responses to an uncertain and difficult environment in the early 1990s; and good collaboration with the IMF to support macro-economic stability. The Bank practiced selectivity by not engaging in areas well covered by other donors; its Economic and Sector Work (ESW) was of good quality and well-received by the government and other donors; and it played an important role in mobilizing external donor aid. Factors inhibiting a greater Bank contribution include: (i) a delayed shift away from emergency support in its assistance strategy; (ii) limited linkage between the lending program and policy recommendations in ESW; (iii) inadequate agreement with other donors on strategic frameworks in some sectors; (iv) frequent changes in government after 1996, which adversely affected continuity; (vi) political sensitivity and anticipated adverse short-term consequences, which caused hesitancy to implement some reforms; and (vii) several significant adverse external shocks.

5. The Bank accounts for only 10 percent of total aid flows to Mongolia, but it offers a unique perspective on many of Mongolia's problems because of its worldwide experience on transition economies. OED recommends that future Bank assistance remain selective and that it focus on improving the private investment environment and strengthening fiscal management. At the same time, the Bank should collaborate with the government and other donors to develop strategic frameworks in each key sector, even if direct lending is not planned.

Gregory K. Ingram
Director-General
Operations Evaluation

1. Background

1.1 *Opportunities and constraints*. Mongolia is a former socialist country, land-locked between Russia and China. It is the most sparsely populated country in the world and with a 1999 per capita income of US$390; it is among the poorest countries in East Asia.[1] About 40 percent of its 2.5 million people are dispersed in rural areas, largely engaged in livestock herding. Mongolia has substantial potential for mineral resource development, including copper, gold, coal, and oil. Some 30 million head of livestock provide sources of food, clothing, and shelter for the rural population as well as raw materials for the commercial production of cashmere, wool, meat, and leather products. Mongolia's location offers proximity to markets in China, Russia, and North East Asia. Its varied terrain, unspoiled habitat, and distinct culture offer tourist development potential. Major development constraints include a lack of market-oriented institutions resulting from 70 years of isolation; a small domestic market; distance from a seaport; protective barriers to Russian and Chinese markets; and a highly dispersed rural population, a rugged terrain, and severe weather, which together contribute to the high costs of public service and infrastructure provision.

1.2 *Good social indicators, but unsustainable economy during the communist era*. Following independence from China in 1911 and the "People's Revolution" in 1921, a socialist republic was established in Mongolia in 1924. A centralized command economy emerged that was closely linked to the Soviet bloc, but isolated from the rest of the world. Successive governments aimed to transform the nomadic agricultural economy into an industrial one. Large copper, leather, wool, coal, cashmere, and food processing industries were established and supported through state orders, input subsidies, and low interest loans and grants. By the late 1980s, industry accounted for 35 percent of GDP, while livestock produce had declined to 13 percent. Copper became Mongolia's main product, accounting for 50 percent of exports. In the 1960s, a subsidized crop sector was introduced to enhance the prospects of food self-sufficiency that eventually accounted for 8 percent of GDP. Substantial investments in social service delivery enabled by Soviet aid (which reached 30 percent of GDP in the late 1980s) yielded high health, education, and life expectancy indicators. At the same time, however, the economy that developed was unsustainable and characterized by large fiscal and external deficits; dependence on Soviet good-will; an inefficient, capital-intensive, and subsidy-dependent industrial base; low livestock productivity due to collectivization; and frequent shortages of basic consumer goods. In the 1980s, *glasnost* and *perestroika* policies in the USSR stimulated parallel movements in Mongolia, culminating in the first free elections in Mongolian history in July 1990.

1.3 *Government priorities of the early 1990s.* Mongolia saw seven governments between 1990 and 2000. Each government retained a fundamental commitment to: (i) consolidating the democratic process; (ii) dismantling the command economy and establishing market-oriented policies and institutions; and (iii) minimizing hardships for

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[1] GNI per capita (WDI). In 1999, Mongolia's population density was 1.5 people per square kilometer, compared to 2.1 for Namibia, and 2.5 for Australia, the second and third most sparsely populated countries respectively (WDI).

the population during the transition process. However, distinct priorities and approaches among the successive governments were apparent. A coalition government led by the Mongolian People's Revolutionary Party (MPRP) that held office from 1990 to 1992 favored a "shock-therapy" approach, intended to rapidly dismantle the command economy. Sweeping reforms were initiated, including removal of most price controls, deregulation of the financial sector, privatization of small and medium industries, and changes in laws and regulations to support private sector activity. This experience was complicated by several external shocks, including the collapse of Soviet bloc markets, termination of Soviet aid, and lower copper prices during the early transition period. GDP declined by 20 percent between 1990 and 1993 and the possibility arose of significant hardships among the public following deterioration of public services (especially energy supply) and loss of employment. Elections in 1992, brought a wholly MPRP government, which held office until 1996. The incoming government adopted a more "gradualist" approach to transition, aimed at stabilizing the economy, restoring growth, maintaining adequate levels of essential public services, and implementing a phased transition toward a market economy. Areas of emphasis included prudent monetary management and investment in public energy and transport services.

1.4 *Government priorities since the mid-1990s.* By 1995, these efforts had resulted in the restoration of macroeconomic stability, a resumption of GDP growth, and a partially dismantled command economy. However, improvements in living standards were not yet apparent. Urban unemployment was high, public service delivery under strain, and as many as 36 percent of the people were living in poverty. Continuing structural problems included a weak banking sector, a preponderance of large and inefficient public commercial firms, a distortionary tax regime, and weaknesses in the legal framework supporting private sector activity. The 1996 elections brought a Democratic Union Coalition (DCU) government, which held office until 1998. The DCU government introduced an ambitious reform agenda, abandoning the "gradualist" approach in favor of rapid advancement of remaining policy and institutional reforms. Elements of its program included a bold plan to privatize remaining state assets; bank restructuring; improved incentives for foreign investors, liberalized energy prices, a further reduction (eventually abolishment) of tariffs, and expanded social welfare spending to help protect the poor. This program derailed following a political crisis in 1998-99, which yielded three successive coalition governments and diverted attention away from the reform agenda. Elections in July 2000 returned an MPRP government with an overwhelming parliamentary majority. This incumbent government announced a policy agenda that retains the main elements of prior reform programs (including stabilization, privatization, bank restructuring, and infrastructure development) but stresses a slower reform process and greater protection of the poor and local industries.

2. The World Bank's Products and Services in the 1990s

World Bank Objectives, Products, and Services

2.1 *Gradual shift from emergency to longer-term support.* Since Mongolia became a member of the World Bank Group in 1991, the Bank has provided it with two broad phases of assistance: (a) emergency transition support between 1991 and 1996; and (b) support for longer-term structural reforms and investments since 1996. Major objectives during the first phase were to: (i) support short-term macroeconomic stability through balance of payments lending; (ii) support essential public services and industries through import financing and technical assistance; and (iii) build public capacity to manage a market economy by financing training and external advisors. After 1996, the Bank provided investment financing, balance of payments support, and technical and advisory services to help: (i) improve macroeconomic management and support medium-term stabilization; (ii) develop the private sector and financial institutions; (iii) remove infrastructure bottlenecks; (iv) promote equity in development through direct poverty alleviation efforts; and (v) protect the environment.

2.2 *Lending interventions.* The Bank was not the largest lender to Mongolia in the 1990s, providing some 10 percent of the country's total aid flows during the decade. Both Japan and the Asian Development Bank (ADB) had significantly larger lending programs. Twelve IDA credits were approved during the decade, for a total committed amount of US$208 million. These included two critical import loans, which supported the public energy, transport, agriculture, and mining sectors; four banking sector interventions; a social fund-type poverty alleviation project; two technical assistance projects to help improve management in several central agencies; and one investment project each in transport, energy, and urban water supply. By commitment amount, 39 percent was aimed at improving public infrastructure; 27 percent supported the banking sector; 24 percent was emergency transition support; and 5 percent each was in self-standing technical assistance and the social safety net.

2.3 *Analytical Services*. The Bank's prospective lending program drove the sectoral focus of its analytical reports. Eight formal ESW reports were prepared during the 1990s, including three Country Economic Memorandums (CEMs), sector reports in agriculture (FY95), energy (FY96), and transportation (FY99); a poverty assessment (FY96); and a public enterprise review (FY97). The Bank also produced a financial sector review, helped the government prepare its National Environmental Action Plan in 1995, and supported a Participatory Livings Standards Assessment carried out by the National Statistics Office in 2000. Numerous informal background reports, research papers, and policy notes were prepared, covering, the informal sector, health, education, gender, and social protection. Regular Bank/IFC/FIAS analytical work aimed to diagnose problems and prescribe solutions to improving the investment environment for the private sector.[2]

[2] See Annex B for details on IFC/FIAS activities.

2.4 *Advisory services.* The Bank sought to advise the government on a range of policy issues, among them, fiscal and monetary policy, energy sector reforms, banking reforms, privatization, improving the investment environment, and mitigating the social costs of transition. The Bank's main instrument for promoting the recommendations of its analytical work was through agreements with the government and IMF in Policy Framework Papers in 1993, 1994, 1997, and 1999**.** At the request of the government, a Resident Mission was established in 1998 to enhance the Bank's policy advisory role. The Poverty Reduction Strategy Paper (PRSP) preparation process commenced in late 2000, with the Bank playing an active advisory role.

2.5 *Aid coordination*. The Bank identified coordinating its activities with those of the many active donors in Mongolia as an important element of its assistance strategy in the 1990s. It co-chaired (with Japan) donor meetings annually between 1991 and 1995, and periodically thereafter, for a total of seven assistance group meetings in the 1990s. In lending operations, it sought to collaborate with other donors in energy, technical assistance, safety net transfers, the banking and enterprises sectors, and the early balance of payments loans.

Results of the World Bank's Assistance

Emergency Transition Support

2.6 *Positive assistance to prevent the collapse of essential services in the early transition period.* The Bank and other international donors responded quickly to Mongolia's special circumstances of the early 1990s. Substantial financial and technical assistance contributions helped maintain an adequate supply of essential public services, limit the drop in Mongolia's GDP to around 20 percent between 1990 and 1993, and restore growth by 1994. The Bank's loans as well as its role in chairing donor meetings in Tokyo helped catalyze stabilization funds from several other donors and its financing of spare parts for public heat, transport, and electricity services, which had suddenly became unaffordable (i.e. at world prices and in hard currency), helped keep these services functioning during the winters of 1991-94. Recovering copper prices, along with financial and advisory assistance to the copper sector under the Bank's import support loans helped boost copper export levels, a key factor in restoring growth by 1994. The 20 percent drop in GDP in Mongolia between 1989 and 1993 was less than that of many other transition countries and the resumption of growth came earlier. For example, GDP growth in countries such as Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, and Turkmenistan resumed only after 1996 (EBRD).

Improving Macroeconomic Management

2.7 *Monetary management was strengthened, although weaknesses in fiscal management continue*. The Bank worked closely with the IMF to help Mongolia phase out direct monetary instruments, maintain prudent monetary policy, expand its revenue base, and rationalize fiscal expenditures. Each of its CEMs reviewed progress in macroeconomic management and recommended next steps, which were then fed into the Policy Framework Agreements between the IMF, Bank, and government. The Bank also financed advisors, local staff training, and information systems in the central bank and the Ministry of Finance through the FY91 Technical Assistance credit and the on-going FY99 Fiscal Technical Assistance credit. Over the decade, the central bank emerged as a relatively strong, though not formally independent body, and its prudent monetary policies successfully reduced inflation and built a comfortable level of international reserves. Fiscal revenues were enhanced following measures to simplify and broaden the tax regime, including introduction of a value added tax in 1998. Problems remained, however, in enforcing collections within the new tax regime. Moreover, despite consistent Bank advice, less progress was seen in expenditure prioritization, monitoring, and control. There were periodic surges in fiscal spending (i.e. prior to the 1996 and 2000 elections), causing the fiscal deficit to widen from 6 percent of GDP in 1995 to an estimated 12 percent in 1999. This trend diverges sharply from those of many Commonwealth of Independent States transition countries, where budget deficits declined in the late 1990s (EBRD). Increased domestic borrowing to finance the deficits drove up already high interest rates, to the detriment of credit and returns to the private sector. Mongolia's statistical database also remains weak, undermining analysis and policy decisions. A cumulative real appreciation of the exchange rate of 35 percent since 1995 moreover, while helping contain inflation, may have adversely affected output.

Strengthening the Financial Sector

2.8 *Despite extensive Bank and other donor support, progress in the banking sector was poor.* Donor efforts in the 1990s to help transform Mongolia's banking system into an efficient provider of financial services were fraught with setbacks. Early in the transition, liberalization of the banking sector prior to strengthening the central bank's supervisory capacity, building commercial banking skills, or strengthening banking laws resulted in a rapid increase in the non-performing loan portfolios of the commercial banks. In 1996, ADB led a financial sector restructuring effort supported by the IMF and the Bank's FY96 Banking and Enterprise Sector Adjustment Credit (BESAC). The program closed two insolvent public banks; created the Mongolian Asset Recovery Agency (MARA) to take over bad loans; created and capitalized a new public commercial bank; transferred deposits in the defunct banks to a newly-established Savings Bank (SB); replaced directed or inherited loans with government bonds; and financed the restructuring of two of the largest defaulting public enterprises. The total public cost of the program was over 8 percent of GDP. However, while the clean balance sheets of the banks helped show a temporary improvement in 1998, this was not sustained. By early 2000, three large state banks—including the one created in 1997—were insolvent; the SB's bonds were not being serviced and its viability was in question; MARA had made limited progress in recovering loans; and the two enterprises that had been provided funds remained unviable commercial entities. Credit to the private sector amounted to just 5 percent of GDP; three of the four largest banks (which accounted for 80 percent of banking sector assets) remained fully state-owned; the spread between deposit and lending rates was over 20 percent; and liquidity ratios of the only two healthy banks in the system was over 50 percent (despite prudential norms of 18 percent), indicating a limited interest in investment financing.

2.9 *A range of factors undermined progress in the banking sector.* The inability to help develop an efficient banking system stemmed from a range of issues, among them: (i) the limited private sector response in the 1990s which deprived the banks of viable commercial customers; (ii) the pervasive legacy of directed lending and the limited consequences of default inherited from the communist era; (iii) weak enforcement of legal provisions protecting lenders; (iv) excessive government borrowing and failure to honor payment arrears; (v) a continued lack of accounting and banking standards and skills; and (vi) the adverse impact of external shocks in 1997/98, which lowered revenues in the copper and cashmere sectors. On the part of the donors, ADB took the "lead" in the banking sector and the Bank in the enterprise sector. However, in the event, the programs developed in both sectors were inadequate to resolve the extensive underlying problems. The Bank's Banking and Enterprise Sector Adjustment Program was too modest to play the role envisioned by ADB in the overall program and the technical assistance provided by the two donors was insufficient to address extensive weaknesses in lending practices. Relations between the Bank and the ADB were at times difficult and they financed the program without fully agreeing on the key reform strategies or their implementation, leading to weaknesses in the design and supervision of the effort. The Bank did not undertake a comprehensive financial sector review until 1999, several years after the design of BESAC.

2.10 *Promising recent policy intervention, although the relevance of a credit line is questionable*. In FY00, the Bank approved the Financial Sector Adjustment Credit (FSAC) to support a further round of financial sector reforms, this time based on a detailed financial sector review and curtailing the amount of public funds involved. Initiatives included privatizing the largest bank and strengthening the legal and regulatory framework. In an effort to reach the private sector, the Bank also approved the FY99 Private Sector Development project, which is providing a line of credit to the only two sound banks for long-term investment lending. However, while the objective of stimulating private investment is highly relevant, there is some question as to the relevance of an external line of credit in a system with significant liquidity (albeit dominated by short-term deposits) and overseas assets and where the problem has been excessive lending in a poor lending environment. The Bank's 1997 CEM cautioned that "providing long-term credit without removing the fundamental causes for the lack of it is a recipe for failure". Whether access to funds is a critical constraint to long-term lending is questionable when both banks have deposit bases, which should act as their sources of long-term finance.[3] The risk/reward perspective of the banks encourages purchase of central bank bills, maintenance of sizeable overseas deposits, and provision of short-term working capital loans rather than application of these funds to investment lending. A

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[3] The Region commented: "The question about the relevance of the Private Sector Development project credit line, on the grounds that there is significant liquidity, seems misplaced. While there is significant liquidity, it is based on short-term demand and time deposits. The predominance of short-term liabilities leads banks to focus on short-term working capital loans in order to avoid an assets/liabilities mismatch. There is an urgent need for capital investment to replace the old Soviet-era investments. The PSDC credit line responds to this need by providing longer-term credits to support 3-7 year term loans for capital investment. It would be good to see development of a government bond market and an eventual ability by sound local banks to sell longer-term debt. Until then, programs like this credit line serve a useful purpose."

large untapped indigenous source of funds for long-term lending, moreover, is the deposit base in the Savings Bank, which is presently a captive market for government bonds.

Improving the Environment for the Private Sector

2.11 *While important strides were made in improving the environment for the private sector, much remains to be done.* Overall, the government made good progress in enabling market incentives and encouraging the fledgling private sector in Mongolia in the 1990s. Important steps included enabling property ownership; removal of price and marketing controls; significant reductions in trade barriers; simplification of the tax regime; and development of a regime to attract foreign investment. The share of the private sector in GDP rose from 5 percent in 1990 to some 65 percent in 1999 and trade diversified considerably, with China replacing the former Council for Mutual Economic Assistance (CMEA) as the largest trading partner. Nevertheless, the lack of an investment response other than in a few sectors (largely, gold and raw cashmere production) remains the key obstacle to more rapid progress in improving living standards in Mongolia. Inefficient government regulatory and oversight functions continue to hamper and raise the costs of private activity. For example, according to the Chamber of Commerce, "export of meat requires a visit to more than 20 institutions … to get processed about 60 pages of various documents."[4] The competitive environment is clouded by the government's continuing ownership (or control of privatized enterprises) of dominant firms in key sectors, including copper, the meat and cashmere processing industries, energy, railways, air transport, telecommunications, and banking. Other constraints identified by potential investors include inconsistent and untransparent implementation of tax and incentive policies; a difficult land-leasing regime; and cumbersome investment approval procedures.

2.12 *The impact of the Bank was modest.* Along with support for macroeconomic stabilization and work in the financial sector as discussed above, Bank/IFC/FIAS work to help improve the environment for the private sector included organization of two investor conferences to stimulate investment interest, a range of analyses and recommendations in CEMs and policy notes, a diagnostic review of the investment climate, support for legal and judicial reform, and assistance to implement Mongolia's investment promotion strategy. The impact of much of this work was modest, however. In reviewing the main constraints to investment in 1999, FIAS noted that it had provided advice on many of the same issues over the past five years and yet the same issues persisted. While the Bank's 1996 Public Enterprise Review and the 1997 CEM made sharply critical assessments of the negative impact that large public firms were having on the economy and identified detailed agendas for restructuring and privatization, these programs were not realized. Although some manufacturing and service enterprises have been privatized, the key infrastructure (power/telecommunications) ones have not. In the mid-1990s, the Bank and ADB opposed a government decision to ban raw cashmere exports to support local cashmere processors. ADB suspended a tranche of its on-going policy loan and the ban was later lifted and replaced with an export tax. In retrospect, the Bank/ADB response was appropriate in that the export ban was not an optimal policy response as it introduced

[4] Mongolian Chamber of Commerce and Industry, p.12.

distortions transferring resources from the herders to the processors. However, a close investigation of allegations that domestic manufacturers were facing unfair competition from subsidized Chinese manufacturers was warranted and if correct, recommendations as to the least distortionary policy response would have been appropriate. IFC financed one investment in the 1990s, which failed due to: (i) lack of sponsor expertise; (ii) the inability to access export markets and (iii) lack of sufficient equity capital and technical and management skills in agro-industry and light manufacturing.

Removing Infrastructure Bottlenecks

2.13 *Successful short-term rehabilitation of public transport services.* Bank interventions in transportation under the Economic Recovery Credit (ERC), Economic Transitions Support Credit (ETSC), and the FY94 Transport Rehabilitation project helped prevent a collapse of public bus and railway services during the critical early transition period. These projects consisted largely of financing immediate needs for new equipment, parts, and external advisors and were not designed to generate sustainable improvements in these services. Both the beneficiary bus company and the railway company are presently financially unviable and would not be in a position to repay their share of the loans, if required to do so. Since the mid-1990s, the Bank has recommended a radical overhaul of the organization and ownership of the public bus companies, as well as introduction of concessions in the railway sector to enhance competition, although progress in these directions has been limited.

2.14 *Useful contributions in roads, although lack of a common sector strategy undermined progress.* The Bank made a positive contribution in roads through its rehabilitation of a portion of the east-west road, institutional strengthening in the department of roads, demonstration of the feasibility and cost-effectiveness of using local contractors and compact gravel roads (rather than paved roads), and its analytical work.[5] Nevertheless, overall progress in improving and expanding the road network has been slow. The extent of roads remains sparse and low budgetary allocations to maintenance have left some 40 percent of existing roads requiring rehabilitation and half the bridges over their age limits. Investment in the road sector in the 1990s was guided by the ADB-sponsored Roads Master Plan, which the Bank found "did not address routine maintenance, did not adopt an incremental approach to investment, and overlooked low-cost solutions…."[6] Lack of agreement on a long-term approach with the government and other donors undermined development impact as funds were allocated across a range of

[5] The government asked that the following comment be added: "Construction of gravel road carried out under the Transportation Improvement Project was efficient, however the gravel pavement itself is easily damaged causing an increase of operating cost due to non-surface treatment. Also, the materials used for construction of embankment and selected from naturally existing sources without considering local conditions. This has caused to increase construction cost. There is a possibility to use locally available materials for construction of drainage system (stone pipe-small bridge constructed of stones, etc.) and materials taken from roadside borrow areas for embankment resulting in saving total construction cost. Therefore it is considered that the project shall give it efficiency, if use the saving from total construction cost is used for surface treatment."

[6] World Bank, *Taming the Tyrannies of Distance and Isolation: A Transport Strategy for Mongolia.* Report No. 18242-MOG, May 25, 1999.

smaller projects rather than concentrated on a few critical ones. The Bank made a good contribution toward this end, with its 1999 Transport Strategy for Mongolia, which has gone some way toward aligning the government and different donors along a common sector strategy. Bank dialogue during preparation of a recently approved second road project helped raise allocations to road maintenance, as well as building appreciation of the social and economic benefits likely to arise from increasing access to isolated areas.

2.15 *Difficult progress in promoting reforms in the energy sector.* The energy sector absorbed some 40 percent of the country's external debt during the 1990s. Initial Bank interventions through the early critical import loans helped prevent a collapse of coal, heat, and power supply services. In FY95, a comprehensive Energy Sector Review identified the need to go beyond these temporary stopgap measures toward establishing a commercially oriented energy system with private participation. The ensuing FY96 US$35 million Coal Project aimed, in part, to help stimulate these reforms, although its main focus was on rehabilitating a coalmine to maintain minimum coal supply levels. As such, the project helped upgrade the physical and institutional capacity of the coalmine and played an important role in improving coal supply of the central energy system, but the regime remains inefficient, incurring high losses in the transmission and distribution systems. Although controlled energy prices were raised intermittently, they remained insufficient to ensure adequate revenues flowing from the distributors to the heat and power plants and back to the coalmines. The largest consumer, the state-owned copper company, significantly weakened the regime by accumulating large debts to distributors. As a consequence, the sustainability of the physical and institutional benefits of the Bank project is in doubt as the coal company's financial position deteriorated and it has been unable to meet its coal output targets. In the context of a proposed second energy project, the Bank maintained a persistent dialogue on improving the price and regulatory regime and good progress has recently been made in these areas (early 2001). Lessons learned in the sector over the decade included the need for a close assessment of the trade-offs between short-term support and the incentives for long-term reforms; the need for a combined donor approach to maximize leverage in supporting difficult reforms; and the need to develop alternative energy sources (i.e. gas, hydro, wind, and solar) to reach the rural population.

Strengthening the Social Safety Net

2.16 *Wide reach of a direct transfer program, although questions on sustainability remain.* The Bank's 1995 Poverty Alleviation for Vulnerable Groups Project financed the government's National Poverty Alleviation Program (NPAP), which created a central coordination and financing mechanism to mitigate the effects of transition on the 30 percent of the population that was poor. The program aimed to provide loans for income generating activities; create short-term employment through local infrastructure projects; and finance inputs needed to restore basic health and education services. In 2000, a portion of the project funds were reallocated to cushion the impact of a severe winter that destroyed some 2 million livestock. During implementation of the NPAP, Bank and government staff corrected some serious flaws in the credit component. A 1999 UNDP/Bank/Government review of the program found that incomes of some 20 percent of poor households increased as a result of the program and that it made important contributions to strengthening local government capacity. This success is limited by a range of factors, however, including: (i) the lack of monitoring systems in the program, which prevent an accurate assessment of its benefits; (ii) the questionable accuracy of the credit targeting mechanism, which comprised community leaders maintaining lists of eligible poor; (iii) a 50 percent sub-project failure rate in rural areas and 60 percent program-wide repayment rate, which put into question the sustainability of the credit component; (iii) lack of concurrent efforts to rationalize and target the wider safety net, comprising a broad system of transfers that consumes over 17 percent of the fiscal budget;[7] and (iv) lack of user participation that undermines the sustainability of infrastructure created. The Bank and government have recognized these issues and are endeavoring to address some of them in developing the next phase of the program.

2.17 *After a slow start, some progress was made in targeting services to the urban poor.* The FY97 Urban Services project aimed at reducing inequities between the poorer *ger* (makeshift housing) areas of Ulan Bataar and formal housing areas by increasing water supply services, footpaths, and small roads in the *ger* areas. The project was among the Bank's first experiences with public civil works in Mongolia and it encountered significant implementation delays due to lack of counterpart funds, inadequate staffing, and unfamiliarity with competitive procurement systems. By 2000, the project was not on track to achieve its initial objectives, although good recent progress had been made toward improving access to central water supply points among a scaled back group of beneficiaries. The project also made a positive contribution toward strengthening management and introducing commercial orientation in the water utility company.

Protecting the Environment

2.18 *The Bank adopted an appropriate environmental safeguard strategy.* The Bank pursued a relevant strategy to help protect the environment, comprising analytical work, GEF-sponsored projects, and environmental safeguard provisions in its lending program. No large direct lending took place on the basis that Mongolia's environmental problems were not considered acute; more critical areas for Bank investment existed; and other donors (mainly UNDP) were active in the area. In 1995 the Bank financed preparation of the government's National Environmental Action Plan. The Bank strategy provided a good analysis of the links between macroeconomic development, natural resource depletion, and development of 'comparative advantage' sectors such as mining and tourism.[8] The Bank also financed several small trust fund operations during the decade. In the lending program, a safeguard approach was adopted and environmental provisions including Technical Assistance (TA) and training were integrated into the ETSC, the Transport Rehabilitation project, the Coal project, and the Urban Services project. Overall, during the decade, environmental awareness increased in Mongolia and a largely appropriate regulatory framework for environmental protection and sustainable use of

[7] While the shares of health and education expenditures in GDP halved between 1991 and 1998, expenditures on social security and welfare rose from 5.5 percent of GDP in 1991 to 6.5 percent in 1999.
[8] See, *An Environmental Review of 1999 Country Assistance Strategies* by Priya Shyamsundar and Kirk Hamilton. The review highlighted the Mongolian CAS as best practice with respect to consideration of poverty-environment linkages.

natural resources was created. Pollution indicators showed improvements between 1990 and 1997. However, implementation, enforcement, and monitoring of the environmental regime are still lagging and the impacts of increased investment in gold mining and of concentration of grazing pressures in rural areas close to roads and settlements are of increasing concern.

Assessment of the Contribution of the Bank's Products and Services

2.19 *Lending interventions (Partially Satisfactory).* Of the four evaluated projects in Mongolia, the outcome of one—the Banking and Enterprise Sector Adjustment Credit (BESAC)—was rated unsatisfactory by OED due to its inability to stimulate sustained improvements in the banking or enterprise sector. The outcomes of the other three completed projects were rated satisfactory. Of the eight remaining projects, two are presently at risk—the Fiscal Technical Assistance Project and the Coal Project. Thus, 75 percent of the total loan portfolio amount is satisfactory or likely to achieve its development objectives. However, the benefits of only one of the four evaluated projects are likely to be sustained, with the other projects largely providing short-term benefits only. The coal and the urban services projects suffered from a range of implementation problems and are on target to meet only a portion of their initial development objectives.

2.20 *Analytical Services (Satisfactory).* The Bank's ESW was by and large of good quality, providing wide coverage of issues and making relevant recommendations. Persistent work with respect to macroeconomic management, rationalizing utility prices, improving the environment for the private sector, developing a strategic framework in transport, identifying and reaching the poor, and restructuring/privatizing public enterprises helped elevate these issues to the forefront of the policy reform agenda. The Bank also provided strategic advice on land reform at the request of the Government Working Group on Land Reform. The Bank's reports were generally well received by the successive governments, for example, the Mongolian delegation to the 1998 Annual meetings stating that "we greatly commend and highly value the Bank's non-lending program…" Reports from other donors indicate that Bank ESW played an important role in helping them define their assistance strategies and develop their programs. At the same time, there are views that Bank reports were somewhat lagging behind the progression of ideas on transition as they evolved in the 1990s and that a greater focus on diagnosing which institutions were and were not working in Mongolia was warranted. More references to international experience in the transition economies of Europe and Central Asia (ECA) would have been useful. Moreover, the Bank's ESW was relatively silent on timing and sequencing issues and did not explore some potential social and political obstacles to policy reforms, which turned out to be critical stumbling blocks to implementation of some reforms.

2.21 *Advisory Services (Partially Satisfactory).* During the 1990s, the Bank promoted a steady move toward dismantling the command economy and establishing market principles, with due concern for the short-term impacts of these changes and the need to protect the poor and vulnerable. The Bank's advice was appreciated by the government during the decade, although there were limitations as to the mechanisms through which it was delivered. The Bank was not perceived as the principal external advisory agency during much of the decade, with USAID seen as the most influential advisor in the early years, ADB in the mid-1990s, and the IMF as maintaining a lead role with respect to macroeconomic management throughout the decade.[9] The Policy Framework Paper agreements with the government and IMF tended to be very detailed and specific on macroeconomic management issues, but (other than in banking after 1997) less detailed and more open-ended on structural reform issues. The Bank's policy recommendations also tended to have limited linkage to its lending program. Other than in energy pricing and some conditions related to enterprise restructuring, Bank operations did not contain policy conditions until the FY00 FSAC. Following the government's expression of its appreciation of the Bank's policy advice and a request for a more prominent and consistent advisory role on the part of the Bank, a Resident Mission was established in 1998. The Bank's advisory role was also strengthened through work on the FY00 FSAC.

2.22 *Aid coordination (Partially Satisfactory)*. The donor meetings co-chaired by the Bank with Japan during the decade were critical to mobilizing external resource flows in the early transition years. They provided an opportunity for donors to inform each other what they were doing and to a large extent avoid overlapping activities. At the same time, however, as discussed below, strategic frameworks in some sectors were not fully developed and agreed upon with other donors and the government, undermining the effectiveness and sustainability of these contributions. An issue raised at the 1999 donor meetings was the inadequate effort by donors and the government to ensure that the various contributions fed into a coordinated public investment program. Poor tracking of combined aid flows and their linkage to development performance was also an issue. In some instances during the 1990s, observers describe pressure for donors to compete against each other to finance projects, with the government's main interest being immediate stabilization financing.

[9] This perception was reflected in interviews with a sample of former government officials, external donors, and Bank staff. It is worth noting that the advice of other external agencies also achieved only mixed success during the 1990s. All agencies were feeling their way on an experimental basis in a very complicated transition process.

3. Development Impact Assessment

3.1 *A solid foundation has been established*. Considering the pervasiveness of the command economy that had to be dismantled, Mongolia's progress toward establishing a sustainable, market-driven economy in the 1990s has been significant. The principal challenges faced by successive governments in the 1990s were to: (i) consolidate the democratic process and ensure political and economic freedoms; (ii) stabilize the economy, prevent a further collapse in output, and avert severe hardships for the population during the initial transition period; (iii) protect human capital development levels and support the vulnerable during the transition process; and (iv) establish policies and build institutions required to generate participatory and sustainable growth of the market economy.

3.2 *The democratic process was consolidated and the initial transition crisis was successfully contained.* <u>The first of these goals was achieved.</u> A new constitution was enacted in 1992, which guaranteed human rights and economic freedoms and set the stage for the emergence of an open society in Mongolia. Free multiparty elections were held five times in the 1990s and the democratic process successfully overcame a serious constitutional crisis and leadership void in 1998-99. Bank and other donor support for economic stability and reform indirectly supported this process. <u>The second goal was also achieved.</u> Prudent macroeconomic policies on the part of the government along with recovering commodity prices and a strong international donor response contained the decline in GDP between 1989 and 1993 to less than that of many other transition countries; restored growth by 1994; and averted severe hardships among the people that might have occurred with a collapse of essential public service delivery. The Bank played an important role in helping meet this objective through its balance of payments lending; rehabilitation support in sectors such as energy, transport, and copper; technical assistance; and mobilization of support from other donors.

3.3 *Human capital levels and vulnerable groups were protected, although signs of strain are apparent.* <u>The third goal was mostly achieved.</u> Following an initial decline in the early 1990s, delivery of basic health and education services stabilized, although there have been signs of strain. The share of GDP allocated to health and education services remained relatively high–at 4.3 percent and 5.7 percent respectively in 1999 (compared to low-income country averages of 1.2 percent and 3.3 percent respectively). Nevertheless, in primary education there was a drop in enrollment rates from 95 percent in 1989 to 87 percent in 1998, partly attributed to increased demand for boys' labor in livestock herding. The declining quality and access to rural health services is also of increasing concern. The Bank provided some analytical work and advice in health and education, but appropriately refrained from direct lending due to the significant presence of other donors. Protection of vulnerable groups was to some extent met by an informal safety net comprising urban unemployed migrating to rural areas to engage in family livestock herding. An extensive formal transfer system also provided some income support to a large number of poor. The Bank made a direct contribution in this area, providing finance and advisory services and helping mobilize donor support for the National Poverty Alleviation Program (NPAP). The sustainability of both the formal and informal safety nets is a concern, however. Recent weather shocks and overgrazing have imposed limits on small-holder livestock activities, while the cost of the formal transfer system has risen to 17 percent of the budget. The government and all donors were slow to recognize the importance of rural development in the face of rising vulnerability to natural hazards, but through lessons learned from the NPAP and the Participatory Living Standards Assessment (PLSA), the Bank has helped bring about a shift in approach that seeks to promote secure and sustainable livelihoods. It is apparent that on the one hand, there is room to rationalize and improve the efficiency of the formal transfer system and on the other, that broad-based growth must take root so that more people are fully absorbed into productive activity.

3.4 *While growth has been restored, employment generation and value added have been modest.* The fourth goal was only partially achieved. During the 1990s, in response to policies such as the liberalized price environment, a legal environment favorable to private commercial activity, a reduced role of the state, and an improved trade regime, a positive response was seen in the form of: (i) significant investment in the gold sector; (ii) growth in livestock produce, particularly raw cashmere exports to China; and (iii) increased small-scale trading and service activities in urban areas. Along with large public infrastructure investments, these activities contributed to an average GDP growth of 3 percent per annum between 1996 and 2000. However, to date, the main sources of growth have not added value to Mongolia's raw materials, nor generated significant employment, nor reduced Mongolia's vulnerability to external shocks. Generous tax incentives and limited labor demand limit the benefits of the gold mining industry on the wider economy. Several export-oriented labor-intensive industries in which Mongolia would appear to have a comparative advantage—i.e. processing of cashmere, meat, wool, and leather raw materials—failed to respond, leading to low employment opportunities in urban areas and stagnating exports. Continued dependence on a few raw material exports—with copper and cashmere accounting for 70 percent of exports—has left the economy vulnerable to commodity price shocks. Increased livestock herding, meanwhile, has caused larger numbers of people to be vulnerable to weather shocks—as seen during the past two winters—as well as put some pressure on land degradation.

3.5 *The Bank's contribution to the fourth goal was modest.* The Bank contributed to the early 1994-95 recovery in growth through its import support financing of key industries (particularly copper), the technical advice it provided to key economic management agencies; and its analytical work and policy recommendations on a range of reforms. However, efforts to help remove some of the key policy and institutional impediments to sustainable growth that the Bank identified in its 1995 and 1998 strategies met with less success. While clear improvements were made in the enabling environment for private investment, significant weaknesses still exist. Following the slowing down of the privatization process, large public firms continue to dominate key sectors of the economy, undermining the competitive environment and burdening public finances. Positive improvements were made in the tax regime, but despite consistent Bank advice, expenditure management remained a weak link, characterized by bouts of loosened expenditure and high domestic borrowing. The expected results of interventions in the banking and enterprises sector have not yet materialized and the poor performance of these sectors undermines the rest of the economy. While some positive contributions were made in infrastructure, the overall lack of adequate infrastructure remains an important bottleneck to investment and wider participation in and benefit from the market economy.

3.6 *The unfinished agenda has yielded mixed results in improving living standards.* On the positive side, after dropping significantly between 1990 and 1994, per capita income recovered from US$330 in 1995 to US$390 in 1999.[10] Life expectancy at birth rose from 65 years in 1995 to 67 in 1999, while infant mortality per 1,000 births fell from 64 in 1990 to 35 in 1998 (compared to a low-income country average of 77). However, since 1995, the proportion of poor has not been reduced, remaining steady at 36 percent of the population and income inequality, while still relatively moderate, has increased.[11] Conditions in rural areas remain particularly difficult, with opportunities to move beyond subsistence livestock herding scarce. Access to some basic public services is also limited, reflecting in part the difficultly in reaching Mongolia's highly dispersed and partly nomadic rural population: 80 percent of rural dwellers remain without access to electricity and half the national population is without access to safe drinking water. Urban employment opportunities remain limited and increased rural to urban migration that is expected from two successive severe winters is likely to put additional strain on already stretched urban housing facilities and public services. With limited opportunities to participate in and benefit from the market economy along with declining public social services, a good degree of public dissatisfaction with social and economic conditions is evident. A 1998 UNDP survey indicated that just 10 percent of the people felt they were better off since 1990, while almost one third felt they were worse off. This sentiment was also apparent during the 2000 elections when social and economic conditions were central campaign issues and the incumbent government suffered a landslide loss.

[10] GNI per capita, atlas method (WDI).
[11] The Gini coefficient rose from 0.31 in 1995 to 0.35 in 1998.

4. Attributions of Results

External Factors

4.1 *Significant adverse external shocks and restricted markets impeded progress.* Mongolia's progress in the 1990s was hampered by intermittent external shocks that necessitated priority attention to emergency short-term measures rather than longer-term reforms. This was the case in the early transition following reduction of external aid flows and commodity price declines. Likewise, a drop in markets and prices for Mongolia's major export commodities during the 1997/98 East Asian crisis caused a decline in fiscal revenues and international reserves and exacerbated problems in the corporate and banking sectors. Intermittent natural disasters, including forest and steppe fires, droughts, and severe weather also impeded progress. In particular, very harsh winters in 1999 and 2000 destroyed some 3 million head of livestock, reducing output and threatening the livelihoods of the poorer rural population. A further external constraint was the continued existence of trade barriers to Mongolian finished good exports to China and Russia, which reduced Mongolia's ability to exploit proximity to these markets. In 2000, both Russia and China maintained relatively high tariffs on finished good imports from Mongolia. An example of a consequence of such tariffs (as well as other factors) is that three Russian meat-processing plants were located just across the Mongolian border. These plants procured raw Mongolian meat for processing and shipment to Russian markets, depriving Mongolia of the added value and employment resulting from these activities.

Client Performance

4.2 *A strong high-level commitment to the underlying objectives was apparent, although political instability and differing priorities undermined consistency.* The Mongolian transition experience was characterized by young, enthusiastic Mongolian leaders who embraced and fully committed themselves to advancing political and economic reforms. This high degree of ownership was the driving factor behind the significant progress seen in Mongolia since it embarked on its transition in 1990. Government performance with respect to the Bank's lending program was satisfactory, other than under the Banking and Enterprise Sector Adjustment Loan (BESAC), where performance was undermined by a weak project design, changes in government, and strong political opposition to some reforms. Numerous project implementation delays in the portfolio partly reflected the unfamiliarity of Mongolian officials with Bank processes and international procurement procedures. Progress in some policy reform areas was undermined by inconsistent implementation due to the changes in government and in particular, the acute political instability after 1998.[12] For example, while an appropriate set of policy responses was developed with the Bank/Fund to counter the effects of the

[12] The 1996 coalition government lasted until April 1998, when the PM resigned. A second coalition government held office until July 1998, when it lost a vote of no-confidence. A political impasse ensued, during which the government was without a Prime Minster for six months. A third coalition Prime Minister was appointed in December 1998 and held office until July 1999 when he was replaced by a fourth coalition Prime Minister. In July 2000, the coalition parties lost the parliamentary election to the MPRP.

East Asian crisis in 1997/98, it was not implemented in a timely manner following a change in government. Anticipated adverse political and social effects along with resistance from vested interests resulted in hesitancy to implement some reforms recommended by the Bank, including price liberalization and privatization of large firms. The strong commitment to reforms that existed among the leadership in Mongolia, moreover, was not always matched at other levels or outside the government. This lack of a broad-based consensus was an important obstacle to full implementation of 1996 bank restructuring and privatization program supported by the Bank. Finally, changes in government also yielded replacement of senior civil servants and public enterprise officials, which improved policy cohesion but also affected skills and capacity in these areas that the Bank had sought to build through technical and advisory services.

4.3 *Weaknesses in enforcing compliance with new laws and strengthening new institutions persisted.* The successive governments in Mongolia enacted some 250 new laws in the 1990s, yielding—on paper—a largely appropriate legal and regulatory environment for a market-oriented economy. However, Bank and external assessments point to the partial implementation of the new regime as a critical weakness undermining development of market-based activities. New laws remained unenforced, due in part to unawareness or inadequate understanding of them by both the general public and legal practitioners. New agencies that were created—such as MARA, Credit Information Bureau (CIB)—were not adequately strengthened or empowered to function effectively. New policies such as those governing the investment and tax regimes are inadequately implemented due to lack of understanding or commitment to some reforms among middle levels of the government and agencies outside the central government. A 1999 survey of the business community conducted by the Mongolian Chamber of Commerce revealed a perception that corruption was a growing problem, particularly among officials in the tax and customs agencies.

Bank Performance

4.4 *The overall professional quality of the Bank's services was good, its objectives were relevant, and its interventions selective.* The Bank pursued relevant objectives in Mongolia in the 1990s, with the exception that—in retrospect—emergency transition support could have been phased out earlier than it was. The Bank's objectives and strategy were consistent with the principles of the Comprehensive Development Framework and aimed to help reduce poverty and improve living standards by enabling sustainable growth. The Bank did well to practice selectivity and did not finance investments in areas where other donors were fully involved. The early rehabilitation loans were appropriate in light of the strong commitment shown by the government to implementing market reforms and the magnitude of the immediate problems faced: collapsing industries, termination of Soviet aid, lower commodity prices, and the prospects of severe hardships among the population. The rehabilitation loans were well coordinated with other donors and took place under the umbrella of an IMF-led stabilization program. The financing of advisors and training and producing analytical reports in various sectors were appropriate responses to the severe shortage in knowledge and skills needed to identify, design, and implement a broad range of difficult reforms. Close attention to the financial sector was relevant given a succession of crises in the sector (i.e. in 1992, 1994, 1996, and 1998) and their debilitating impact on the wider economy. Per evolving best practice, due attention was paid to the short-term impact of the transition and safety net programs for the poor. Selective attention to redressing poor infrastructure, which continued to impede private sector activity and greater participation of the rural population in the market economy was also relevant.

4.5 *However, the Bank's shift away from emergency-type support could have occurred earlier and greater policy content in its lending would have enhanced its assistance.* At the same time, there were weaknesses in the composition of Bank assistance. By late 1993, the economy had stabilized and begun to recover from the initial shocks and, in retrospect, a shift to a longer-term Bank assistance strategy at this point would have been appropriate.[13] Several interventions developed between 1993 and 1996 adopted short-term rather than systemic, sustainable approaches: the FY93 ETSC continued financing "critical" imports for public entities until 1997, well after the initial crisis had passed; and sector interventions in energy and transport focused on immediate rehabilitation of target public entities, rather than systemic overhaul. In the event, while these projects were mostly well implemented and conferred immediate benefits, their questionable relevance in a non-emergency environment limited their contribution to Mongolia's long-term development goals. The Bank also did not have strong parallel policy operations and the recommendations it developed on private sector development, privatization, fiscal management and other areas were not reinforced through its investment lending. This deprived the Bank of an opportunity to engage in a more emphatic and consistent policy dialogue and instead focused Bank staff attention on project implementation issues such as agency staffing and procurement. In retrospect, greater policy and institution-building content in the lending program—through either adjustment lending or programmatic investment financing—from the mid-1990s onward, would have enhanced the relevance of the Bank's response as the emergency receded and the formidable policy and institutional reform agenda loomed.

4.6 *Participation and partnership were promoted, although agreements on strategic frameworks with the government and other donors were not reached in some areas.* While donor meetings were held regularly during the decade, effective collaboration in some key sectors, including transport and finance was lacking. Although duplicated investment efforts were avoided, donors tended to "do their own thing" within each sector rather than as part of a coordinated public investment program. To some extent, this reflected the lack of agreement on strategic frameworks in these sectors. For example, in transport ADB pursued a strategy of paved roads along the north-south axis on the assumption that growth could be driven by transit traffic between Russia and China. The Bank, meanwhile, pursued a strategy of gravel roads along an east-west axis on the basis that integrating isolated regions would stimulate growth. In the end, neither road has progressed to extent that it is meeting its objective. Development of common

[13] The Region commented: "Bank activities in support of policy issues began to be addressed with the FSAC starting in 1998. An earlier shift to policy-based lending instruments in the face of political changes in the 1997-2000 period might not have been prudent as there was not a strong Government ready to take strong decisions or even to engage in policy dialogue."

strategic frameworks improved over the decade, including in the financial and transport sectors. A clear lesson learned by donors during the decade is that in a small economy like Mongolia that can absorb limited donor investments, it is critical for donors to agree on strategic frameworks in each sector prior to dividing up investment financing in order to maximize the impact of external aid.

4.7 *Other factors of Bank performance.* The Bank displayed innovation and adaptability during the learn-as-you-go environment of the early 1990s, when the Bank's knowledge on transition economies was scant. Intensive supervision and "step-by-step advice" accompanying the Bank's interventions proved valuable to counterparts as they first began to interact with the non-communist world. The 1998 Client Feedback Survey of the Bank's work in Mongolia indicated an overall positive perception of the Bank and in particular, (i) its technical and managerial expertise (ii) its sensitivity to cost-effective solutions and (iii) its honesty, clear expression of goals, and delivery of promises. But, the Bank received relatively low ratings on the extent to which its technical support improved both individual and organization capacity as well as in its use of local expertise in project design. Institutional, social, and environmental assessments were conducted and there were no cases of safeguard violations in the Bank's projects. Average costs for both lending and ESW products were in line with or below Bank-wide norms. Costs were to some degree contained when the program was managed by the country department located in Beijing. In terms of adapting lessons of experience, each project absorbed lessons from preceding projects. However, according to some Bank staff, the lack of interaction between staff working on Mongolia and their colleagues working on transition countries of the former Soviet Union due to Mongolia's placement in East Asia and the Pacific region (EAP) rather than ECA weakened the Bank's ability to absorb and adapt the evolving experience of these transition countries.

5. Bank Assistance Outcome Ratings

Outcome: Partially Satisfactory

5.1 The Bank's country assistance program in Mongolia in the 1990s achieved good progress toward most major relevant objectives, but had limited success in several important areas. From a "bottom-up" perspective, the Bank's contribution was partially satisfactory: its lending, ESW, donor coordination, and policy advice achieved good results, although with some clear limitations. The impact of the lending program in particular, was constrained by unsatisfactory or at risk projects in banking and energy and the declining relevance of its emergency assistance projects as the emergency passed. From a "top-down" perspective, the Bank's assistance also emerges as partially satisfactory. It made important contributions to overcoming the initial crisis and restoring growth as well as in protecting the vulnerable during the transition. However, it was less able to advance key institutional and policy objectives needed to stimulate broad-based growth. The actions of both the client and the Bank helped move the agenda forward, although shortcomings on the part of each were apparent. Several external factors exercised significant negative influences on progress toward objectives during the decade.

Institutional Development Impact: Modest

5.2 *Useful Bank contributions, although undermined by the lack of effective capacity building.* During the decade, the Bank provided finance and advice to help establish and strengthen the legal and regulatory framework and build skills in the public sector. The early TA and import support loans are acknowledged as helping change the "mindset" of key public officials in their view of market-economics and dependence on Russia. Intensive support for the Ministry of Finance and the central bank yielded significant capacity improvements in these agencies. Sectoral interventions in transport, energy, and banking helped strengthen institutional frameworks and train responsible local officials. However, many aspects of the institutional framework that emerged in the 1990s are still very fragile: laws and regulations are uncomplied with; new agencies remain under-funded and weak; service orientation, transparency, and accountability in the public service delivery system is lacking. Some 35 percent of total external aid in the 1990s was spent on technical assistance to build local capacity, but the efficacy of this support has been low and each donor still identifies "lack of institutional capacity" as a key constraint to implementing projects and furthering development objectives. The cost of external advisory services that were intended to be temporary "stop-gap" measures but have now become a permanent fixture of external aid is a concern among some Mongolians. The experience indicated the limits to traditional technical assistance for sustainable capacity development and suggests the need for more participatory approaches, including perhaps, twinning arrangements, development of the local consulting industry, and support for local training institutes.

Sustainability: Unlikely

5.3 *Mostly short-term interventions.* While several benefits of Bank assistance are likely to be sustained, on the whole, its assistance in the 1990s conferred immediate rather than long-term benefits. The import support loans were not designed to be sustainable, but instead to provide emergency-type relief. In the event, several of the beneficiary public agencies of these loans are financially unviable. In energy, inefficiencies and inadequate revenues flowing through the system threaten improvements made in the beneficiary coalmine through the Coal Project. Improvements in roads are threatened by the weak fiscal position and consequent low expenditure on maintenance, which remains below regional standards. The Poverty Alleviation project helped meet the immediate needs of the poor, although the sustainability of the credit component is doubtful as is the infrastructure created in local public works projects.[14] Bank support for financial and enterprise sector reforms in 1996 was not successful and three years later, these sectors were in similar crises. Intensive efforts to build capacity in public agencies were undermined by high staff turnover and expatriate advisors performing functions rather than transferring skills. Meanwhile, Mongolia's total external debt has risen rapidly from 41 percent of GDP in 1995 to 93 percent in 1999 (and from 103 percent of exports to 164 percent). While this is mostly concessional debt and to date, Mongolia's debt service has remained manageable, it is a cause for concern if the application of these funds does not lead to a period of sustained, broad-based growth. In these circumstances, it is critical that future external assistance promote underlying structural and institutional changes.

[14] The Region commented: "The conclusion of unlikely sustainability cannot be said of all aspects of NPAP referred to in this para. It is true of the micro-credit scheme, but not of the infrastructure created under public works sub-projects… these included some of the most successful outcomes of NPAP, and in most cases local governments demonstrated their commitment to sustainability by financing recurrent expenditures and subsequent operation and maintenance."

6. Recommendations

6.1 *Unfinished effort to stimulate broad-based growth.* A considerable task remains for Mongolia to consolidate its achievements to date and accelerate progress in improving living standards. Suggested areas of focus for future Bank assistance include:

- *Removing critical obstacles to investment*. A central remaining objective is to improve the environment for investment in value adding and employment generating activities, such as livestock-based processing and light industry. Among the range of public interventions likely to support this goal are negotiation of access to markets in China and Russia for finished goods; ensuring property rights; improvements in basic infrastructure, especially in transport; improvements in the competitive environment through reduction of the dominance of large public firms in key sectors; enhanced managerial and marketing skills in the private sector; establishment of livestock quality assurance and insurance regimes; and ensuring transparent, fair, and consistent implementation of the investment and legal regimes to encourage local and foreign investors.

- *Ensuring an appropriate mining regime*. Measures to help Mongolia fully and optimally exploit its mineral endowment include strengthening the government's regulatory and oversight capacity in the mining sector; and establishing an effective tax and incentive regime that attracts investors, while ensuring adequate public revenues from these investments as well as their social and environmental sustainability.

- *Improving fiscal management.* A strong focus on improving the fiscal position by broadening the tax base, rationalizing transfers and subsidies, and prioritizing expenditures will be critical to helping maintain stability and expand investment in infrastructure, the social sectors, and skill development.

6.2 In developing its assistance strategy, the Bank should:

- *Collaborate with other donors to develop strategic frameworks in each key sector—even if the Bank does not plan lending operations in these sectors.* In the past, lack of common strategic frameworks in some sectors undermined the impact and sustainability of donor interventions. In a small economy like Mongolia that can absorb only limited external aid, it is important for donors to agree on strategic approaches in each sector prior to dividing up investment financing, to maximize the impact of external aid.

- *Develop a new approach to institutional development and capacity building* by: (i) expanding institutional development efforts beyond the creation of new laws and public agencies toward implementation of laws and strengthening of agencies, and (ii) exploring alternatives to traditional technical assistance to build local capacity. While project-driven TA has helped implement projects and achieve some policy changes, it has had less impact on building long-term technical and managerial capacity in the public sector. Participatory approaches to sustainable capacity building are imperative, including, for example, development of the local consulting industry and support for local training institutes.

Annex A: Statistical Tables

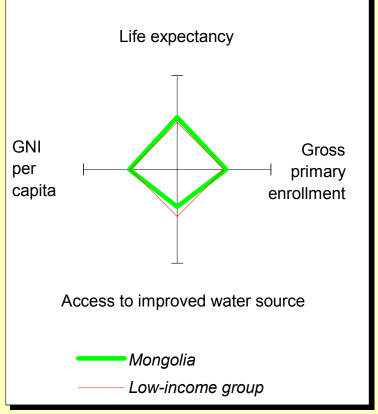
Note: The statistical tables have been updated to reflect the latest data and may differ slightly from the data in the text.

Table 1: Mongolia at a Glance

8/20/03

POVERTY and SOCIAL	Mongolia	East Asia & Pacific	Low-income
2002			
Population, mid-year *(millions)*	2.4	1,838	2,495
GNI per capita *(Atlas method, US$)*	440	950	430
GNI *(Atlas method, US$ billions)*	1.1	1,740	1,072
Average annual growth, 1996-02			
Population *(%)*	1.0	1.0	1.9
Labor force *(%)*	1.8	1.2	2.3
Most recent estimate (latest year available, 1996-02)			
Poverty *(% of population below national poverty line)*	..	..	..
Urban population *(% of total population)*	57	38	30
Life expectancy at birth *(years)*	65	69	59
Infant mortality *(per 1,000 live births)*	59	33	81
Child malnutrition *(% of children under 5)*	13	15	..
Access to an improved water source *(% of population)*	60	76	76
Illiteracy *(% of population age 15+)*	1	13	37
Gross primary enrollment *(% of school-age population)*	99	106	95
Male	97	105	103
Female	101	106	87

Development diamond*

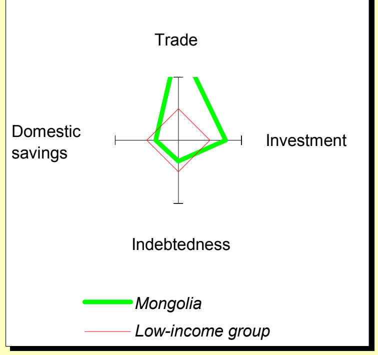


KEY ECONOMIC RATIOS and LONG-TERM TRENDS

	1982	1992	2001	2002
GDP *(US$ billions)*	..	..	1.0	1.3
Gross domestic investment/GDP	70.2	32.6	30.9	..
Exports of goods and services/GDP	26.3	36.8	66.1	..
Gross domestic savings/GDP	32.0	23.2	14.5	..
Gross national savings/GDP	23.3	24.7	17.2	..
Current account balance/GDP	..	..	-7.7	..
Interest payments/GDP	..	..	1.0	0.9
Total debt/GDP	..	..	87.0	82.2
Total debt service/exports	..	17.3	7.2	7.5
Present value of debt/GDP	..	..	59.6	..
Present value of debt/exports	..	..	96.8	..

(average annual growth)	1982-92	1992-02	2001	2002	2002-06
GDP	2.6	2.8	1.1	3.7	..
GDP per capita	0.5	1.7	0.1	2.6	..
Exports of goods and services	..	..	2.2	..	..

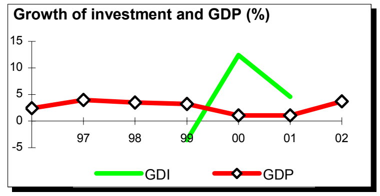
Economic ratios*



STRUCTURE of the ECONOMY

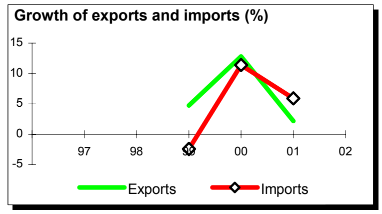
(% of GDP)	1982	1992	2001	2002
Agriculture	18.0	34.5	31.5	..
Industry	25.7	25.4	17.4	..
Manufacturing	..	..	5.2	..
Services	56.3	40.0	51.1	..
Private consumption	38.8	56.4	65.5	..
General government consumption	29.2	20.4	19.9	..
Imports of goods and services	64.5	46.2	82.5	..

Growth of investment and GDP (%)



(average annual growth)	1982-92	1992-02	2001	2002
Agriculture	-0.3	3.9	1.0	..
Industry	2.9	2.6	0.6	..
Manufacturing	..	..	2.7	..
Services	5.2	2.2	1.4	..
Private consumption	..	..	4.1	..
General government consumption	..	..	0.6	..
Gross domestic investment	..	..	4.6	..
Imports of goods and services	..	..	5.9	..

Growth of exports and imports (%)



Note: 2002 data are preliminary estimates.

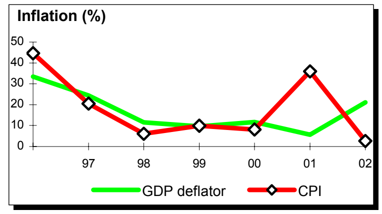
This table was produced from the Development Economics central database.

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

Mongolia

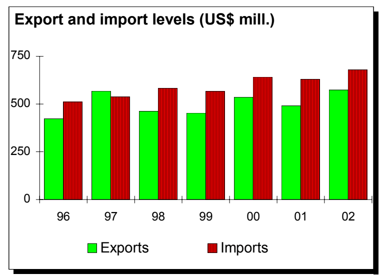
PRICES and GOVERNMENT FINANCE

	1982	1992	2001	2002
Domestic prices				
(% change)				
Consumer prices	..	..	36.0	2.6
Implicit GDP deflator	2.0	176.4	5.7	21.1
Government finance				
(% of GDP, includes current grants)				
Current revenue	..	29.3	0.0	0.0
Current budget balance	..	-1.1	0.0	0.0
Overall surplus/deficit	..	0.0	0.0	0.0



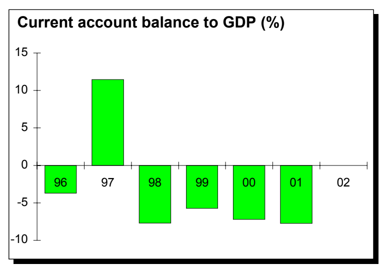
TRADE

	1982	1992	2001	2002
(US$ millions)				
Total exports (fob)	..	388	491	574
Copper	..	160	148	153
Meat	..	32	55	60
Manufactures	..	..	..	..
Total imports (cif)	..	418	630	679
Food	..	21	81	..
Fuel and energy	..	88	111	..
Capital goods	..	137	215	..
Export price index *(1995=100)*	..	..	..	..
Import price index *(1995=100)*	..	..	..	..
Terms of trade *(1995=100)*	..	..	..	..



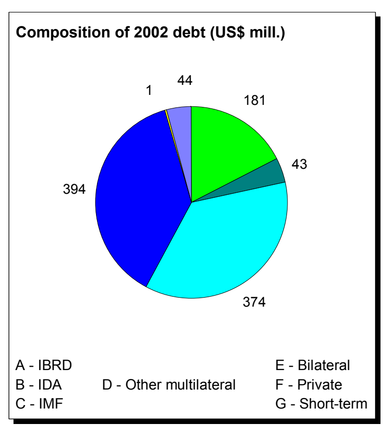
BALANCE of PAYMENTS

	1982	1992	2001	2002
(US$ millions)				
Exports of goods and services	568	384	594	684
Imports of goods and services	1,394	445	791	875
Resource balance	-826	-60	-197	-191
Net income	-20	-28	5	0
Net current transfers	0	-3	9	9
Current account balance	..	-56	-79	..
Financing items (net)	..	50	79	..
Changes in net reserves	-4	6	0	0
Memo:				
Reserves including gold *(US$ millions)*	..	..	0	0
Conversion rate *(DEC, local/US$)*	..	..	1,097.7	1,110.3



EXTERNAL DEBT and RESOURCE FLOWS

	1982	1992	2001	2002
(US$ millions)				
Total debt outstanding and disbursed	..	355	885	1,037
IBRD	..	0	0	0
IDA	..	27	155	181
Total debt service	..	68	45	52
IBRD	..	0	0	0
IDA	..	0	1	2
Composition of net resource flows				
Official grants	..	37	67	..
Official creditors	..	86	56	51
Private creditors	..	19	-1	0
Foreign direct investment	..	2	63	..
Portfolio equity	..	0	0	..
World Bank program				
Commitments	..	0	64	29
Disbursements	..	27	24	14
Principal repayments	..	0	0	1
Net flows	..	27	24	13
Interest payments	..	0	1	1
Net transfers	..	27	23	12



Note: This table was produced from the Development Economics central database. 8/20/03

Annex Table 2: Mongolia - Key Economic and Social Indicators, 1990-2002

	MONGOLIA													AVERAGE 1990-2002				
Series Name	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*	*Mongolia*	*Belarus*	*Hungary*	*Kyrgyz Rep*	*Lao PDR*
GDP growth (annual %)	-2.5	-9.2	-9.5	-3.0	2.3	6.3	2.4	4.0	3.5	3.2	1.1	1.1	3.7	**0.3**	**0.1**	**1.0**	**-1.8**	**6.2**
GNI per capita, Atlas method (current US$)	..	..	..	..	..	330	400	410	410	390	390	410	440	**398**	**1,804**	**4,089**	**341**	**302**
GNI per capita, PPP (current international $)	1,500	1,380	1,270	1,230	1,270	1,370	1,400	1,440	1,460	1,530	1,580	1,600	1,650	**1,437**	**4,168**	**9,848**	**1,448**	**1,227**
GDP per capita growth (annual %)	-4.2	-10.8	-10.9	-4.5	0.8	4.8	1.1	2.8	2.4	2.3	0.3	0.1	2.6	**-1.0**	**0.3**	**1.1**	**-2.9**	**3.6**
Agriculture, value added (% of GDP)	17.4	16.1	34.5	40.1	42.2	42.0	42.1	38.3	37.5	37.0	30.9	31.5	..	**34.1**	**17.1**	**7.8**	**40.0**	**55.7**
Industry, value added (% of GDP)	30.4	25.7	25.4	24.4	24.5	26.4	18.3	20.6	20.7	20.7	20.9	17.4	..	**22.9**	**41.1**	**34.0**	**27.7**	**19.8**
Services, etc., value added (% of GDP)	52.2	58.3	40.0	35.5	33.3	31.6	39.7	41.1	41.8	42.4	48.1	51.1	..	**42.9**	**41.9**	**58.1**	**32.3**	**24.5**
Exports of goods and services (% of GDP)	24.0	69.2	36.8	87.1	64.5	61.8	50.2	75.6	55.5	61.2	65.4	66.1	..	**59.8**	**57.6**	**41.5**	**35.5**	**21.5**
Imports of goods and services (% of GDP)	52.9	105.7	46.2	103.3	78.8	66.3	58.3	87.4	69.0	74.6	81.8	82.5	..	**75.6**	**61.7**	**43.7**	**46.3**	**35.0**
Current account balance (% of GDP)	..	..	..	5.9	7.2	4.4	-3.7	11.5	-7.7	-5.7	-7.2	-7.7	..	**-0.3**	**-3.1**	**-3.6**	**-10.4**	**-5.9**
Total debt service (% of exports of goods and services)	..	..	17.3	6.5	10.7	10.2	10.7	10.0	5.6	4.0	6.0	7.7	..	**8.9**	**2.5**	**34.0**	**15.4**	**6.9**
External debt (% of GNI)	..	..	..	75.5	71.6	57.2	51.5	67.9	74.7	102.1	93.9	85.5	..	**75.6**	**7.9**	**64.9**	**73.4**	**157.9**
Gross international reserves in months of imports	..	..	0.6	1.8	2.5	3.4	3.2	4.2	1.8	2.5	3.1	4.2	5.8	**3.0**	**0.7**	**4.0**	**2.7**	**2.0**
Gross domestic savings (% of GDP)	9.2	3.2	23.2	14.7	13.3	24.9	19.9	17.1	15.2	15.1	13.6	14.5	..	**15.3**	**23.7**	**22.8**	**7.3**	**11.4**
Inflation, consumer prices (annual %)	..	..	..	268.2	87.6	56.8	46.9	36.6	9.4	7.6	11.6	8.0	..	**59.2**	**531.1**	**19.0**	**18.5**	**30.4**
Current revenue, excluding grants (% of GDP)	..	..	19.6	29.3	23.2	26.2	21.9	22.8	20.9	21.2	28.5	31.7	..	**24.5**	**31.0**	**43.2**	**15.7**	**..**
Expenditure, total (% of GDP)	..	..	23.1	27.4	24.1	24.4	22.1	24.9	24.6	25.2	29.3	31.7	..	**25.7**	**33.4**	**49.0**	**21.8**	**..**
Overall budget balance, excluding capital grants (% of GDP)	..	..	-7.8	-17.9	-8.9	-7.3	-9.1	-9.3	-11.6	-10.8	-6.1	-4.1	..	**-9.3**	**-2.0**	**-3.7**	**-5.0**	**..**
Illiteracy rate, adult total (% of people ages 15 and above)	2.2	2.2	2.1	2.0	1.9	1.9	1.8	1.7	1.7	1.6	1.6	1.5	1.5	**1.8**	**0.4**	**0.8**	**..**	**38.5**
Immunization, DPT (% of children under 12 months)	84.0	81.0	81.0	80.0	78.0	88.0	90.0	92.0	94.0	94.0	..	95.0	..	**87.0**	**94.5**	**99.3**	**89.6**	**41.7**
Improved water source (% of population with access)	..	..	..	..	..	..	..	..	..	..	60.0	..	..	**60.0**	**100.0**	**99.0**	**77.0**	**37.0**
Life expectancy at birth, total (years)	62.7	..	63.6	..	..	64.2	..	64.6	..	..	65.1	65.3	65.5	**64.4**	**68.9**	**70.2**	**66.8**	**52.4**
Mortality rate, infant (per 1,000 live births)	77.0	..	73.0	..	..	67.0	..	65.0	..	..	62.0	61.0	..	**67.5**	**17.9**	**11.3**	**60.8**	**102.5**
Improved sanitation facilities (% of population with access)	..	..	..	..	..	..	..	..	..	..	30.0	..	..	**30.0**	**..**	**99.0**	**100.0**	**30.0**
School enrollment, preprimary (% gross)	35.0	33.8	29.5	20.3	19.3	20.9	22.5	20.0	24.4	27.2	28.7	..	..	**25.6**	**85.6**	**103.5**	**17.0**	**7.0**
School enrollment, primary (% gross)	97.2	87.3	75.3	74.7	81.1	88.1	88.4	91.5	97.0	98.5	98.8	..	..	**88.9**	**99.7**	**100.5**	**107.1**	**110.2**
School enrollment, secondary (% gross)	82.4	73.8	64.1	62.6	59.0	59.2	56.2	56.3	58.1	64.4	61.1	..	..	**63.4**	**90.4**	**92.2**	**88.6**	**28.9**
Population, total (in million)	2.1	2.1	2.2	2.2	2.2	2.3	2.3	2.3	2.4	2.4	2.4	2.4	2.4	**2.3**	**10.1**	**10.2**	**4.7**	**4.8**
Population growth (annual %)	1.7	1.6	1.5	1.5	1.4	1.3	1.2	1.1	0.9	0.8	1.0	1.1	1.3	**1.3**	**-0.2**	**-0.2**	**1.0**	**2.4**
Urban population (% of total)	57.0	57.0	56.9	56.9	56.9	56.8	56.8	56.7	56.7	56.6	56.6	56.7	56.7	**56.8**	**68.5**	**63.6**	**35.8**	**17.7**

Source: GDF&WDI (SIMA) database as of January 6, 2004.

Annex Table 3: Annual Change in Gross Domestic Product, 1996-2001

	1996	*1997*	*1998*	*1999*	*2000*	*2001*	*Ave 1996-2001*
GDP	**2.4**	**4**	**3.5**	**3.2**	**1.1**	**1.1**	**2.6**
Agriculture, hunting & forestry	4.4	4.3	6.4	4.2	-14.4	-16	**-1.9**
Mining & quarrying	6.1	5.6	4.9	3.2	6.1	10.5	**6.1**
Manufacturing	-13.8	-15	3.2	-2.8	-3.3	20	**-2.0**
Electricity, gas & water supply	0.7	0.4	3.2	4.6	0.4	2.4	**2.0**
Construction	2.6	-2.7	-1.1	1.6	-14.6	12.4	**-0.3**
Wholesale & retail trade; repair of motor vehicle, motorcycle & personal & HH goods	0.3	17.1	-3.1	1.3	25.7	8	**8.2**
Hotels & restaurants	6.8	0.2	0.5	8.7	13.2	10.5	**6.7**
Transport, storage & communication	11.2	5.8	7.4	6.1	25.2	11.8	**11.3**
Financial intermediation	42.2	-26.7	-33	39.9	7	47	**12.7**
Real estate, renting & business activities	4.2	-2.4	8.4	-4.7	12.5	7.8	**4.3**
Public administration & defense; compulsory social security	3.5	2.2	1.9	1.5	3.5	3.5	**2.7**
Education	4	4.1	6.8	4.6	3.2	3.3	**4.3**
Health & social work	4.4	3	1.4	3.1	-2.7	0.5	**1.6**
Other community, social & personal service activities	0.8	6.2	5.3	0.5	57.1	2	**12.0**

Source: Mongolian Statistical Yearbook, 2001.

Annex Table 4: Composition of the Fiscal Budget, 1995-2001

	1995	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*
General public services	8.6%	9.0%	8.1%	9.3%	8.4%	9.8%	10.6%
Education	15.8%	14.8%	14.7%	17.1%	17.7%	19.1%	20.8%
Health	10.7%	10.0%	9.1%	9.6%	9.5%	10.7%	10.8%
Social security and welfare	15.7%	13.5%	14.9%	15.1%	16.9%	17.7%	17.9%
Housing and community amenities	1.6%	1.1%	1.2%	1.1%	1.6%	1.6%	1.5%
Recreation, culture, art & sport	3.4%	3.1%	3.1%	3.3%	2.9%	3.3%	3.3%
Fuel and energy	8.3%	3.9%	2.8%	2.7%	1.3%	2.0%	2.4%
Agriculture and forestry	2.8%	2.0%	1.8%	1.5%	1.4%	1.9%	2.4%
Industry. construction and mining and mineral resources	1.8%	1.3%	0.7%	0.8%	0.4%	0.4%	0.5%
Transport and communication	2.9%	2.1%	1.8%	2.0%	2.0%	2.1%	2.7%
Other economic affairs and services	2.4%	3.7%	0.9%	1.4%	0.9%	1.3%	1.4%

Source: Mongolian Statistical Yearbook, 2001.

Annex Table 5: External Assistance to Mongolia

Table 5a: Average Net Receipts from all Donors, 1980-2001
(in US$ million)

	80-89	***90-99***	***2000***	***2001***
Bilateral	0.6	92.4	145.8	140.6
Multilateral	3.3	59.8	60.6	64.8
% AS. D B	..	56%	54%	47%
% IBRD	..	..	..	..
% IDA	..	28%	23%	36%
Others	..	..	..	..
TOTAL DONORS	3.9	152.2	206.4	205.4

Source: OECD database 2003.

Table 5b: World Bank Lending by Sectors, FY90-04
(in US$ million)

	1992	*1994*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*	*Total*
Energy and Mining			35					30			**65**
Economic Policy	30	20								8	**58**
Financial Sector				12			32		5		**49**
Public Sector Governance	5				5				5		**15**
Private Sector Development						12					**12**
Rural Sector									19		**19**
Social Protection			10								**10**
Transport		30						34			**64**
Water Supply and Sanitation					17						**17**
TOTAL	**35**	**50**	**45**	**12**	**22**	**12**	**32**	**64**	**29**	**8**	**308**

Source: Business Warehouse as of January 6, 2004.

Annex Table 5c: External Assistance to Mongolia, 1991-2002

	1991	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*	*Average*	*Total*
Australia	0.0	0.0	0.5	0.7	1.1	2.4	1.7	1.5	1.4	1.4	1.5	1.1	12.2
Austria	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.1	0.1	0.7	0.2	0.1	1.6
Belgium	-	-	-	0.0	-1.8	0.0	-0.1	0.1	0.0	0.0	-	-0.3	-1.8
Canada	-	-	18.1	0.0	-	0.0	0.2	0.2	0.3	0.3	0.8	2.5	19.9
Denmark	1.9	3.0	3.1	4.9	5.7	3.5	6.6	2.2	1.9	1.0	1.1	3.2	34.9
Finland	0.3	7.8	0.8	0.1	-1.0	-0.2	-0.5	3.4	-2.0	0.4	0.1	0.8	9.2
France	0.2	0.4	3.0	0.1	1.0	0.3	1.6	1.9	1.6	1.5	0.4	1.1	12.0
Germany	7.7	17.5	15.3	7.6	-34.2	21.6	17.5	17.1	16.2	18.6	25.0	11.8	129.9
Greece	-	-	-	-	-	-	-	-	-	-	0.0	0.0	0.0
Ireland	-	-	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.3
Italy	-	-	6.5	1.3	-0.8	-17.0	0.4	0.4	-1.3	-0.4	1.8	-1.0	-9.1
Japan	60.7	48.7	48.7	58.2	93.3	103.7	68.5	84.3	97.6	101.1	81.1	76.9	845.9
Luxembourg	-	-	-	-	-	0.3	-	-	-	0.1	0.2	0.2	0.6
Netherlands	2.2	1.8	4.3	1.3	3.9	1.2	1.8	1.8	2.8	4.3	2.5	2.5	27.9
New Zealand	0.0	0.0	0.1	0.1	0.2	0.5	0.7	0.5	0.4	0.5	0.4	0.3	3.4
Norway	-	0.0	-	0.0	0.1	3.0	0.5	0.6	1.7	1.4	5.7	1.4	13.0
Portugal	-	-	-	-	-	-	-	-	-	-	-	..	0.0
Spain	-	-	-	-	0.0	-	-	0.0	0.0	-	-	0.0	0.0
Sweden	0.0	0.3	0.2	1.7	0.9	0.3	0.8	2.8	0.8	1.8	2.6	1.1	12.2
Switzerland	0.0	0.0	0.0	0.0	0.0	0.4	-	0.0	-	0.1	2.3	0.3	2.8
United Kingdom	-	0.1	1.2	1.4	1.5	0.5	0.7	0.7	-5.7	0.3	2.1	0.3	2.8
United States	-	-	-	14.0	-	6.0	12.0	17.7	12.5	12.6	12.7	12.5	87.5
DAC Donors	73.1	79.7	102.0	91.5	70.1	126.6	112.7	135.1	128.3	145.8	140.7	109.6	1,205.6
AfDB	-	-	-	-	-	-	-	-	-	-	-	..	0.0
African Dev. Fund	-	-	-	-	-	-	-	-	-	-	-	..	0.0
As.DB	-	-	-	-	-	-	-	-	-	-	-	..	0.0
As.DB Special Funds	1.1	22.0	16.0	26.7	55.8	34.8	67.4	31.9	46.9	32.9	30.5	33.3	366.0
CARDB	-	-	-	-	-	-	-	-	-	-	-	..	0.0
Council of Europe	-	-	-	-	-	-	-	-	-	-	-	..	0.0
EBRD	-	-	-	-	-	-	-	-	-	-	-	..	0.0
EC	-	0.0	1.0	1.4	5.0	3.0	3.2	1.7	6.0	5.4	3.7	3.0	30.4
EIB	-	-	-	-	-	-	-	-	-	-	-	..	0.0
GEF	-	-	-	-	-	-	-	-	0.0	0.5	0.1	0.2	0.6
IBRD	-	-	-	-	-	-	-	-	-	-	-	..	0.0
IDA	-	27.9	3.4	17.4	8.4	11.0	33.8	16.7	14.2	14.1	23.5	17.0	170.4
IDB	-	-	-	-	-	-	-	-	-	-	-	..	0.0
IDB Special Oper. Fund	-	-	-	-	-	-	-	-	-	-	-	..	0.0
IFAD	-	-	-	-	-	-	0.3	0.2	0.6	0.3	0.8	0.4	2.2
IFC	-	-	-	-	-	-	1.1	-	-	-	-	1.1	1.1
IMF	-	-	-	-	-	-	-	-	-	-	-	..	0.0
IMF Trust Fund	-	-	-	-	-	-	-	-	-	-	-	..	0.0
Montreal Protocol	-	-	-	-	-	-	-	-	-	-	-	..	0.0
Nordic Development Fund	-	-	-	-	-	1.8	6.9	3.0	0.4	-	-	3.0	12.1
Other UN	0.2	0.4	3.0	1.1	1.6	0.8	-	-	0.0	0.1	0.3	0.8	7.5
SAF & ESAF	-	-	13.0	21.2	-	8.1	7.7	-1.3	4.3	1.5	-1.7	6.6	52.8
UN AGENCIES	-	-	-	-	-	-	-	-	-	-	-	..	0.0
UNDP	3.2	2.0	1.3	1.2	1.7	0.4	3.9	2.3	2.0	1.4	1.2	1.9	20.6
UNFPA	0.3	0.6	0.8	1.5	1.2	0.9	0.8	1.5	1.5	1.5	2.2	1.2	12.8
UNHCR	-	-	-	-	-	-	-	-	-	-	-	..	0.0
UNICEF	0.4	0.5	0.7	1.1	1.1	1.4	0.8	1.0	0.7	1.2	1.1	0.9	10.0
UNRWA	-	-	-	-	-	-	-	-	-	-	-	..	0.0
UNTA	2.1	1.7	2.5	1.8	3.9	1.4	2.2	1.8	2.8	1.8	3.1	2.3	25.1
WFP	2.5	-	1.6	0.7	0.0	-	-	-	-	-	-	1.2	4.8
Arab Agencies	-	-	-	-	-	-	-	-	-	-	-	..	0.0
TOTAL MULTILATERAL	9.8	55.2	43.3	74.3	78.7	63.6	128.1	58.9	79.5	60.6	64.8	65.2	716.8
Other Donors	1.6	0.5	0.7	2.1	7.2	0.9	5.9	3.5	6.5	7.9	8.9	4.2	45.7
EC + EU Members	12.3	31.0	35.5	19.9	-19.7	13.6	32.1	32.0	20.4	33.8	39.8	22.8	250.7
TOTAL DONORS	**84.4**	**135.4**	**145.9**	**167.9**	**156.0**	**191.1**	**246.6**	**197.5**	**214.2**	**214.3**	**214.4**	**178.9**	**1,967.7**

Source: OECD database 2003.

Annex Table 6: Mongolia – Selected Economic and Sector Work

No.	*Document Name*	*Date*	*Report No*
	Country Procurement Assessment Report		
1.	Mongolia - Country procurement assessment report Vol. 1 of 1 (English)	9/12/2003	26985
	Economic Report		
2.	Mongolia - Country economic memorandum: policies for faster growth Vol. 1 (English)	8/18/1997	16749
3.	Mongolia - Country economic memorandum: priorities in macroeconomic management Vol. 1 (English)	10/31/1994	13612
	Environmental Action Plan		
4.	Mongolia - Towards Mongolia ' s environmentally sound sustainable development Vol. 1 (English)	2/28/1995	E74
	ESMAP Paper		
5.	Mongolia: improved space heating stoves for Ulaanbaatar Vol. 1 (English)	3/31/2002	ESM254
6.	Mongolia - Energy efficiency in the electricity and district heating sectors Vol. 1 (English)	10/31/2001	ESM247
	Poverty Reduction Strategy Paper (PRSP)		
7.	Mongolia - Poverty Reduction Strategy Paper (PRSP) and Joint Staff Assessment Vol. 1 of 1 (English)	8/18/2003	26563
8.	Mongolia - Interim poverty reduction strategy paper (I-PRSP) and joint assessment Vol. 1	9/7/2001	22691
	Sector Report		
9.	Mongolia - Public expenditure and financial management review : bridging the public expenditure management gap Vol. 1 (English)	6/30/2002	24439
10.	Mongolia - Taming the tyrannies of distance and isolation : a transport strategy for Mongolia Vol. 1 (English)	5/25/1999	18242
11.	Mongolia - Public enterprise review: halfway through reforms Vol. 1 (English)	11/4/1996	15875
12.	Mongolia - Poverty assessment in a transition economy Vol. 1 (English)	6/27/1996	15723
13.	Mongolia - Energy sector review Vol. 1 (English)	11/3/1995	14586
14.	Mongolia - Prospects for wheat production Vol. 1 (English)	6/12/1995	13882

Source: Imagebank as of January 6, 2004.

Annex Table 7: Ratings for Mongolia and Comparator Countries

Table I: Ratings, Exit FY 1990-2004

Country	*Total Evaluated ($M)*	*Total Evaluated (No)*	*Outcome % Sat ($)*	*Outcome % Sat (No)*	*Inst Dev Impact % Subst ($)*	*Inst Dev Impact % Subst (No)*	*Sustainability % Likely ($)*	*Sustainability % Likely (No)*
Mongolia	**138.9**	**8**	**93**	**88**	**48**	**38**	**80**	**75**
Belarus	158.0	5	5	60	5	60	21	40
Hungary	3,220.0	38	97	89	72	66	92	89
Kyrgyz Republic	363.3	12	95	83	39	42	48	58
Lao PDR	348.7	17	85	71	42	41	70	59
EAP	58,816.4	547	86	81	51	45	80	69
World Bank	**251,688.8**	**3,344**	**76**	**70**	**43**	**38**	**66**	**55**

Source: Business Warehouse as of January 30, 2004.

Table II: Ratings for Active Portfolio*

Country	*# Proj*	*Net Commit. Amt ($M)*	*# Proj At Risk*	*% At Risk*	*Commit. At Risk ($M)*	*% Commit at Risk*
Mongolia	**9**	**149**	**0**	**0**	**0**	**0**
Belarus	1	23	0	0	0	0
Hungary	1	32	0	0	0	0
Kyrgyz Republic	15	272	3	20	70	26
Lao PDR	11	214	0	0	0	0
EAP	214	20,441	23	11	1,633	8
World Bank	**1,324.0**	**89,537**	**250**	**19**	**15,541**	**17**

* Active Portfolio as of January 25, 2004.

Source: Business Warehouse as of January 30, 2004.

Annex Table 8: PBD Efficiency Table, FY90-04

(In US$ m)

Country (C)	Lending	Project Supervision	Country ESW	Total Cost
Belarus	4.3	2.1	3.7	11.7
Hungary	13.9	10.1	5.6	32.5
Kyrgyz Republic	14.6	11.8	5.9	36.0
Lao People's De	16.1	9.6	3.1	32.2
Mongolia	**6.1**	**4.5**	**3.5**	**18.5**
EAP	284.8	259.1	137.6	925.9
World Bank	**1,731.6**	**1,701.2**	**895.9**	**5,954.0**

Country (C)	Lending	Project Supervision	Country ESW	Total Cost
Belarus	37%	18%	32%	100%
Hungary	43%	31%	17%	100%
Kyrgyz Republic	41%	33%	16%	100%
Lao People's De	50%	30%	10%	100%
Mongolia	**33%**	**25%**	**19%**	**100%**
EAP	31%	28%	15%	100%
World Bank	**29%**	**29%**	**15%**	**100%**

Source: WB Business Warehouse as of January 26, 2004.

Efficiency Table

	Total Cost, $m	Number of Projects	Net commitment, $m	Average Cost per project, $'000	Average cost per $1000 of Net commitment	Average Project size, $m
Belarus	12	4	193	2,913	60	48
Hungary	33	21	2,357	1,550	14	112
Kyrgyz Republic	36	28	664	1,284	54	24
Lao PDR	32	23	537	1,399	60	23
Mongolia	**18**	**18**	**308**	**1,026**	**60**	**17**
EAP	926	549	70,598	1,687	13	129
World Bank	**5,954**	**3,449**	**307,713**	**1,726**	**19**	**89**

Source: Business Warehouse as of January 29, 2004.

Annex Table 9: Bank Management for Mongolia, 1991-2003

Year	*Vice President*	*Country Director*	*Country Operations Division Chief*	*Country Officer*	*Country Economist*	*Resident Representative*
1991	Attila Karaosmanoglu	Shahid Javed Burki	David Pearce	Paul Cadario	Cevdet Denizer	
1992	Gautam S. Kaji	Shahid Javed Burki	David Pearce	Paul Cadario	M. Durdag	
1993	Gautam S. Kaji	Shahid Javed Burki	David Pearce	Hongjoo Hahm	Carlos Elbirt	
1994	Gautam S. Kaji	Nicholas C. Hope	Zafer Ecevit	Hongjoo Hahm	Carlos Elbirt	
1995	Russell J. Cheetham	Nicholas C. Hope	Zafer Ecevit	Hongjoo Hahm	Carlos Elbirt	
1996	Russell J. Cheetham	Nicholas C. Hope	Klaus Rohland	Hongjoo Hahm	Hongjoo Hahm	
1997	Jean Michel-Severino	Nicholas C. Hope	Klaus Rohland	Natasha Beschorner	Hongjoo Hahm	
1998	Jean Michel-Severino	Ngozi Okonjo-Iweala	Peter Bottelier	Natasha Beschorner	Bert Hofman	Lynn Ground
1999	Jean Michel-Severino	Ngozi Okonjo-Iweala		Natasha Beschorner	Mona E. Haddad	Lynn Ground
2000	Jemal-ud-din Kassum	Julian Schweitzer (Acting)		Zafar Ahmed	Vera Songwe	Lynn Ground
2001	Jemal-ud-din Kassum	Ian Porter		Zafar Ahmed	Vera Songwe	Saha Meyanathan
2002	Jemal-ud-din Kassum	Ian Porter		Zafar Ahmed	Vera Songwe	Saha Meyanathan
2003	Jemal-ud-din Kassum	Ian Porter		Zafar Ahmed	Vera Songwe	Saha Meyanathan

Source: World Bank Group Directory 2003.

Overview of IFC Operations in Mongolia[15]

Country membership: 1991

IFC Activities

Investment: IFC has made a small investment in a leather garment company (1997), and is currently considering investments in a large gold mining project, a microfinance company, and commercial bank.

Technical Assistance: IFC has also worked with companies in specific sectors, including agro-industry and tourism, and is currently providing TA in leasing and microfinance. IFC has provided advisory services to the government on foreign investment law (FIAS, 1992-1999), a hotel privatization (1994), financial leasing law (1997), and review of a state-owned bank (2000).

IFC Results

Investment: IFC has had difficulty finding viable investment projects in Mongolia, due to lack of strong sponsors and difficult market conditions. IFC's first investment was not successful due to lack of sponsor expertise and inability to access export markets. Technical Assistance: Results from TA programs providing sectoral support and training have been effective in building capacity at participating companies, even though the programs have not resulted in investments by IFC. For government advisory work, frequent changes of government have reduced the effectiveness of TA due to policy discontinuity. However, IFC's recent work on bank privatization, micro-finance, and leasing appear to be having an impact on the current government's financial sector strategy.

Economic problems/opportunities affecting portfolio performance and pipeline.

The economy is dominated by mining and agriculture, and is highly seasonal. Foreign investment is limited, and concentrated in a few large natural resource projects; IFC has been involved in discussions of several such projects. Little local co-financing is available. The agro-industry and light manufacturing sectors are dominated by SME's, which often lack sufficient equity capital, technical and management skills, and find IFC's requirements difficult to meet. IFC has actively pursued smaller projects in a variety of sectors, but most projects do not meet IFC's investment criteria.

Obstacles to greater private activity and foreign direct investment.

Government plans for privatizing large enterprises did not progress during the late 1990's, but the new government appears committed to accelerating privatization, and sees a role for IFC. Foreign direct investment was discouraged by political instability in the late 1990's, as well as by lack of transparency in the legal process and cumbersome bureaucracy. IFC and FIAS will continue to support improvements in the foreign investment environment.

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[15] Prepared by IFC's East Asia & Pacific Department. Mongolia became a member of MIGA in 1999. To date, no guarantees have been effected.

Examples of joint activities with the Bank.

IFC has worked together with the Bank on projects including joint sponsorship of two investor conferences in 1996 and 1997. IFC is exploring privatization initiatives in conjunction EASPS, and developing leasing TA which supports a Bank transport project. IFC and CGAP are currently providing joint technical assistance in microfinance.

IFC's strategy or plans for the country (if any).

IFC will continue to look for opportunities in Mongolia. IFC's strategy will include: (1) development of and investment in existing financial institutions to reach the microfinance market; (2) developing SME capacity-building and lending programs in close coordination with the SME department; (3) looking for investment and technical assistance opportunities in the government's "most valued companies" privatization program, in collaboration with the government and EASPS; and (4) pursuing larger-scale natural resource projects in sectors such as mining, in cooperation with sponsors that are willing to meet the World Bank and IFC's social and environmental policies. FIAS will consider re-commencing work on foreign investment law.

FIAS Activities in Mongolia in the 1990s

1999	Promotion strategy	FIAS assisted in the implementation of an investment promotion strategy as a follow-up to a previous project.
1998	Institutions: Training	FIAS organized training for the Foreign Investment Board staff and helped strengthen the investor servicing unit.
1998	Investment policy: Laws	FIAS reviewed and commented on the draft FDI law.
1997	Promotion strategy	FIAS drafted a report and organized a Roundtable on the relationship between investment environment and investment promotion.
1997	Investment policy: Law	FIAS helped in the revision of the investment law.
1993	Diagnostic	FIAS conducted a diagnostic review of the investment climate.

List of People Interviewed—Evaluation Mission, September 2000

Government of Mongolia

Puntsagiin Jasrai, Member of the State Great Hural, former Prime Minister of Mongolia

Yansanjav Ochirsukh, former Minister, Ministry of Finance

Davaasambuu D., former Minister, Ministry of Finance

Kh. Narankhuu, Deputy Minister, Ministry of Industry and Trade

Ts. Yondon, State Secretary, Ministry of Trade and Industry

Khurelbaatar Chimed, Advisor to the Prime Minister

D. Bailikhuu, Advisor, State Property Committee

B. Ganzorig, Chairman, Foreign Trade and Foreign Investment Agency

S. Manlajav, Director-General, Department of Monitoring and Evaluation, Ministry of Infrastructure Development

Ms. Odongua, Director, Bank of Mongolia (central bank)

Ms. Narantuya, Deputy Director, Banking Supervision Department, Bank of Mongolia (central bank)

Tumurdavaa Bayarsaihan, former official, Ministry of Agriculture (currently ADB staff)

Atsushi Fujimoto, Economic Advisor, Ministry of Finance and Economy (JICA-funded)

Bill Bikales, Advisor, Prime Minister's Office (USAID-funded)

World Bank-funded Project Implementation Staff

Genden Pagma, Director, Poverty Alleviation Program Office

T Alexander Menamkat, Programme Management Advisor, National Poverty Alleviation Program

Davaakhuu Purevtsetseg, Officer, Planning and Research Division, Department of Roads

Jamba Uranbileg, World Bank Fiscal TA Coordinator, Ministry of Finance and Economics

Gonchig Oyungerel, World Bank Fiscal TA Accounting Advisor, Ministry of Finance and Economics (former Head of the Restructuring Department of the Ministry of Finance and former Coordinator of the BESAC project)

Wilfred J. McKie, Project Implementation Advisor, Ulaanbaatar Service Improvement Project

N. Erdenechimeg, Project Coordinator, Private Sector Development Project, Ministry of Finance and Economics

Byamba, Project Manager, Ulaanbaatar Service Improvement Project

Bardarchin Tuul, Ulaanbaatar Service Improvement Project

Private Sector/Banking Sector

Sambuu Demberel, Chairman and CEO, Mongolian Chamber of Commerce and Industry

B. Jargalsaikhan, General Director, Buyan Holding Ltd. (Cashmere processing)

Ch. Ganbat, International Relations Department, Buyan Holding Ltd

Yo. Otgonbayar, Managing Director, Bayangol Hotel and Deputy Director-General Makhimpex Company (Meat processing)

Namjiliin Ulziibayar, Director, Khatan Suikh Impex Co. Ltd (Sausage manufacturing)

O. Khurelbaatar, Vice President, Trade and Development Bank of Mongolia

D. Gantugs, Project Manager, Trade and Development Bank of Mongolia

Bayasgalan Danzandorj, President and CEO, Golomt Bank

G. Gankhuyag, Director, International Department, Golomt Bank

Peter Morrow, Executive Director, Agricultural Bank of Mongolia

NGOs/Academic/Other

Katherine S. Hunter, Representative in Mongolia, The Asia Foundation

Batyn Suvd, Director, School of Economic Studies, National University of Mongolia

Prof. Batkhuyag Jamiyandorj, President, Institute of Finance and Economics (former Economic Advisor to the Prime Minister)

Rene Schara, Senior Advisor, Tacis SMEMON 9601, Mongolian Business Development Agency

Nyamsuren Aliasuren, Senior Manager, Mongolian Business Development Agency

N. Oyunbayar, Editor-in-Chief, UB Post (Press)

Sarangua Davaadorj, Associate Director of Legal Studies, International Law Institute

Chimmeddagua, Director, Think Tank Mongolia

Ruth Dyer, Country Director for Mongolia, Mission East

Official Donors

Edward W. Birgells, Mission Director, USAID Mongolia

Saraswathi Menon, Resident Representative, UNDP

Shannon W. Atkeson, Resident Representative, IFC

Michael Martin, Resident Representative, Mongolia, IMF

Hans-Henning Sawitzki, Director, GTZ Office, German Development Cooperation

Tetsuo Amagai, Assistant Resident Representative, Japan International Cooperation Agency

Laura Byergo, Economic Officer, US Embassy in Mongolia

Natsuki Hiratsuka, Deputy Resident Representative, UNDP

Yokiko Kojima, Senior Programs Officer, Programs Department (East), ADB

Bruno Carrasco, Senior Economist, Financial Sector and Industry Division, ADB

Rajiv Kumar, Senior Economist, EDRC, ADB

Ziba Farhadian-Lorie Senior Economist, Strategy and Policy Department, ADB

Rita Ravi Nangia, Senior Evaluation Specialist, ADB

Mala Hettgige, Economist, Evaluation Division East, ADB

Tamara Goodstein, Poverty Specialist, Education, Health, and Population Division, ADB

Susanne Scheierling, Project Economist, Agriculture and Rural Development Division, ADB

S. Vivekanandan, Senior Energy Specialist, Energy Division (East), ADB

Richard Noonan, International Consultant, Second Education Project, ADB

Mongolia Country Assistance Evaluation: Management Action Record

Major Monitorable OED Recommendation Requiring a Response	*Management Response*
• *Ensure an appropriate mining regime.* Measures to help Mongolia exploit its mineral endowment include strengthening regulatory and oversight capacity, and establishing an effective tax and incentive regime that attracts investors, while ensuring adequate public revenues and social and environmental sustainability of investments.	• Mining is potentially one of the key sectors which can contribute to growth and reduce poverty in Mongolia. The Bank will be looking in more detail at the sector in the context of forthcoming AAA on sources of growth and on the copper sector. We will also continue to take account of the needs of the mining sector in our on-going dialogue with the Government on the regulatory framework and the enabling environment for private sector development. The next CAS will consider what further involvement by the Bank Group in the mining sector would be appropriate.
• *Develop alternative means to build local capacity.* The poor record of past TA in building long-term technical and managerial capacity in the public sector calls for more participatory approaches to capacity building, including, for example, twinning arrangements, development of the local consulting industry, and support for local training institutes.	• Agreed. The Bank will enhance participatory approaches to capacity building in its planned operations, building for example on the participatory processes being developed for the PRSP and supporting the development of the local consulting industry. A number of planned operations will also include support for local training institutions.
• *Collaborate with other donors to develop strategic frameworks in each key sector.* In a small economy like Mongolia, it is important for donors and the government to agree on strategic approaches in each sector prior to dividing up investment financing, to maximize impact of external aid.	• Agreed. The Bank will work closely with the Government and other donors on the development of strategic approaches for major sectors and thematic areas, drawing on Bank supported AAA work. This will include work on some sectors where the Bank does not expect to be involved in investment financing. This approach will be further reviewed in the context of the next CAS.

Guide to OED's Country Assistance Evaluation Methodology

1. This methodological note describes the key elements of OED's country assistance evaluation (CAE) methodology.[16]

CAEs rate the outcomes of Bank assistance programs, not Clients' overall development progress

2. An assistance program needs to be assessed on how well it met its particular objectives, which are typically a sub-set of the Client's development objectives. If an assistance program is large in relation to the Client's total development effort, the program outcome will be similar to the Client's overall development progress. However, most Bank assistance programs provide only a fraction of the total resources devoted to a Client's development by donors, stakeholders, and the government itself. In CAEs, OED rates only the outcome of the Bank's program, not the Client's overall development outcome, although the latter is clearly relevant for judging the program's outcome.

3. The experience gained in CAEs confirms that program outcomes sometimes diverge significantly from the Client's overall development progress. CAEs have identified assistance programs which had:

- satisfactory outcomes matched by good Client development;
- unsatisfactory outcomes in Clients which achieved good overall development results, notwithstanding the weak Bank program; and,
- satisfactory outcomes in Clients which did not achieve satisfactory overall results during the period of program implementation.

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

4. By the same token, an unsatisfactory assistance program outcome does not always mean that Bank performance was also unsatisfactory, and *vice-versa*. This becomes clearer once we consider that the Bank's contribution to the outcome of its assistance program is only part of the story. The assistance program's outcome is determined by the *joint* impact of four agents: (a) the Client; (b) the Bank; (c) partners and other stakeholders; and (d) exogenous forces (e.g., events of nature, international economic shocks, etc.). Under the right circumstances, a negative contribution from any one agent might overwhelm the positive contributions from the other three, and lead to an unsatisfactory outcome.

[16] In this note, *assistance program* refers to products and services generated in support of the economic development of a Client country over a specified period of time, and *client* refers to the country that receives the benefits of that program.

5. OED measures Bank performance primarily on the basis of contributory actions the Bank directly controlled. Judgments regarding Bank performance typically consider the relevance and Bank's lending interventions, the scope, quality and follow-up of diagnostic work and other AAA activities, the consistency of Bank's lending with its non-lending work and with its safeguard policies, and the Bank's partnership activities.

Evaluation in Three Dimensions

6. As a check upon the inherent subjectivity of ratings, OED examines a number of elements that contribute to assistance program outcomes. The consistency of ratings is further tested by examining the country assistance program across three dimensions:

(a) a *Products and Services Dimension,* involving a "bottom-up" analysis of major program inputs -- loans, AAA, and aid coordination;

(b) a *Development Impact Dimension,* involving a "top-down" analysis of the principal program objectives for relevance, efficacy, outcome, sustainability, and institutional impact; and,

(c) an *Attribution Dimension,* in which the evaluator assigns responsibility for the program outcome to the four categories of actors (see paragraph 4. above).

Rating Assistance Program Outcome

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

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

Ratings Scale

9. OED utilizes six rating categories for **outcome**, ranging from highly satisfactory to highly unsatisfactory:

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

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

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

11. **Sustainability** can be rated as *highly likely*, *likely*, *unlikely*, *highly unlikely*, or, if available information is insufficient, *non-evaluable*. Sustainability measures the resilience to risk of the development benefits of the country assistance program over time, taking into account eight factors:

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

Comments from the Government of Mongolia

Unofficial translation

**Ministry of Finance and Economy
of Mongolia**

January 23, 2002 No: 8/252 Ulaanbaatar

Mr. Saha Meyanathan,
Resident Representative,
The World Bank Office,
Mongolia

Re: Report on the Country Assistance Evaluation

We have studied the Mongolia: Country Assistance Evaluation Report sent by the World Bank Office in Mongolia. The World Bank has been cooperating with the Government of Mongolia since 1990 and we consider the World Bank as one of the lead donors in our country. Therefore, the level and success of the World Bank operations and activities are being implemented in Mongolia are very important for us.

We attach a great importance to the World Bank principles of evaluating its completed and on-going projects and activities. Although evaluation ratings in the report for all the sectors are not satisfactory, we will consider the issues which could beresolved by our side. We are confident in more efficient cooperation in the future.

Yours faithfully,

Kh. Amarsaikhan,

Head, Economic Cooperation
and Management Coordination
Department

AnGaH 6yc opgyynra

To: **Resident Representative Office of the World Bank in Mongolia**

Re: **Comments on the draft "Mongolia: Country Assistance Evaluation** (CAE)

We have studied the draft "Mongolia: Country. **Assistance Evaluation (CAE)" and in general accept** *the* document: However, we **.would like to suggest _changing 'the following sentences in the part of** *"Removing Infrastructure Bottlenecks":*

2.13 *"Successful short-term , rehabilitation 'of public transport services.* Bank interventions in transportation under the- ERC, ETSC, and the FY94 Transport . Rehabilitation project helped prevent a collapse of public bus and railway services during the critical early transition period."

into.'

"Provision of support for rehabilitation of public transport services. Bank loans in transportation sector under the ERC, ETSC, and Transport Rehabilitation project, which started in the FY94 helped improving and increasing of reliable operation of public bus 'and railway services during the critical early transition period.

Add the following highlighted sentences after the. sentence in the:

2.14 "Thu bank made a positive contribution...and its analytical work Construction of gravel road carried out under the Transportation Improvement Project . was efficient, however, the gravel pavement itself is easily damaged causing an increase of operating cost due to non surface treatment. Also,
the materials used for construction of embankment and selected from naturally existing sources without considering local conditions. This has caused to increase construction cost. There is a possibility to use locally available materials for construction of drainage system (stone pipe-small bridge constructed of stones, etc.) and materials taken from "roadside borrow areas for embankment resulting in saving total construction cost. Therefore it is considered that the project shall give it efficiency, if use the saving from total construction cost is, used for surface treatment."

2.15 "... As such the project helped upgrade the physical and institutional capacity of the coal mine but was less able to stimulate commercial orientation or financial viability in the energy supply system. The regime remains inefficient, incurring high losses in the transmission and distribution systems. Controlled energy prices were raised intermittently, but remained insufficient to ensure adequate revenues flowing from the distributors to the heat and power plants and back to the coal mines."

into:

"... As such, the project helped upgrade the physical and institutional capacity of the coal mine and played an important role for improving coal supply of the central energy system but the regime remained inefficient, incurring high losses in the transmission and distribution systems. Despite controlled energy, prices were raised intermittently, but remained insufficient to ensure adequate revenues flowing from the distributors to the heat and power plants and back to the coal mines."

B.JIGJID
Minister

February 2002

Mongolia CAE-Management Comments[1]

Following are some informal comments for the authors of the CAE to consider as they finalize the draft paper. These comments have been consolidated from various members of the Mongolia Country Team and others as well as from discussions during Country Team meetings. A Country Team meeting was also held with Asita Da Silva (the principal author) on an earlier draft and individual comments were sent.

General

The CAE is a well-written paper and does a credible job of reconstructing the objectives, instruments, implementation, and outcomes of the various Bank interventions during the period covered. It is a useful historical document, bringing together in one place considerable amounts of information on the Bank's Mongolia work during the past decade. There is much to learn from this analysis and to take on board as we move towards formulating the next CAS and Bank program for Mongolia.

Some Team members felt that the paper does not fully weigh the gravity of the crisis after the transition from the Soviet Union and how the Bank, with other donors helped avert a major catastrophe. Estimates show GDP dropped precipitously over a span of only a few years, huge Soviet subsidies suddenly vanished, industries were shut down, Soviet military installations and airports—which supported the local economy—were abandoned, supply lines were cut, maintenance and spare-parts for key facilities (such as power generation) disappeared. Just providing heating, power, fuel and food to the people for the first few years occupied the Government and all who came to its aid. The reconstruction credits that the Bank provided in those years reflected these priorities. Basic operations such as banking systems, fiscal structures, administrative setups, had to be built almost from scratch. The sequencing and timing of the subsequent move away from supporting emergency relief and the establishment of fundamental systems towards supporting policy loans and investment credits reflected the realities of country circumstances.

While OED's evaluations of individual Bank-financed projects may have varying ratings, the sum of the projects, AAA interventions, and advisory services, provided by the Bank did succeed in helping address some of the key development challenges of Mongolia. The post-transition catastrophe was averted; banking, budgetary, monetary, trade, and fiscal systems have been put in place and are functioning; macroeconomic equilibrium was established; and administrative and democratic political systems are now firmly rooted. The country, and the Bank and other donors, did start on the post-reconstruction phase by focusing on poverty reduction and growth by turning towards investment projects and policy issues. Our projects on poverty alleviation,

[1] The Region also provided specific comments that were incorporated into the text of the CAE, or footnoted separately.

transportation, the energy/coal sector, were thus on target and timely. Bank activities in support of policy issues began to be addressed with the FSAC starting in 1998. An earlier shift to policy-based lending instruments in the face of political changes in the 1997-2000 period might not have been prudent as there was not a strong Government ready to take strong decisions or even to engage in policy dialogue.

The Country Team felt that there seemed to be some disconnects between the analysis of development impact assessment and the ratings that are finally proposed. While most deemed the analysis to be fair and accurate with valid conclusions being drawn, the outcome ratings, particularly the "unlikely" rating for sustainability, appear somewhat out of line with assessments in the main body of the paper.

Financial Sector

General Comments

In evaluating results of Bank assistance in Mongolia's financial sector, it is helpful to distinguish Bank performance and borrower performance. It is not realistic to assume Bank and other donor programs can *give* Mongolia a strong financial sector. It is easier (relatively) to change behaviors than fundamental attitudes. Whatever the donor advice, unless the client sees the need to do it, and the political, social, economic and cultural environments support it, fundamental changes will not take place at the pace and magnitude the donors would like. The CAE mentions strong borrower-government ownership. However, when it comes to specific policy-structural-institutional changes, the ownership may not be there.

It is also helpful to remember that the Bank played a less active role in Mongolia's financial sector during much of 1990s. The creation of Savings Bank, MARA, and other crisis responses mentioned in the report were under the ADB program. As a matter of fact, the Bank team held a quite different view regarding the appropriate responses to the crisis. The CAE could have provided more insight and recommendations on how Bank management and team should handle this type of differences with other donors under those circumstances such as the one in 1996.

Energy Sector

While pricing policies were mismanaged for a period as a result of political paralysis, the Baganuur Coal company has become a commercial enterprise in the way it managed its operations and in its financial management in front of the crisis brought about by low coal prices. Had this transformation not occurred, as it was the case at the other coalmines, coal supply could have become an issue again. This operation was designed as part of a sequence, and it laid out the operational foundation to move into policy dialogue as is the case today.

Minor point: The Coal Project was rated Unsatisfactory during the 1999-2001 period, reflecting the lack of actions derived from the political uncertainty at that time. However, it was rated satisfactory in March 2001, and again in December 2001, following price adjustments through 2001 and improvement in arrears.

Macroeconomic Issues

The CAE notes the poor performance of expenditure management and rising expenditures. In the two main areas of public expenditure—the social sectors and banking sector—the main donors (ADB and the IMF, respectively) had agreed on increasing expenditures (against the advice of the Bank). The banking sector crisis of 1998 and the recent social sector analysis in the context of the PRSP, have succeeded in drawing attention to these distortions. The PER that is being jointly prepared will hopefully clarify many of these issues.

One of the reasons which reduced the pace of the our transition to policy-based lending was the need to ensure that social safety nets for the poor had been well designed. This has been the issue in the energy sector, where price increases have been slow. Even in the banking sector, privatization or closure of state-owned banks with sole access to the rural areas, was a problem. Similarly, Bank advice on trade issues had a strong poverty perspective including the issue of export bans.

While the CAE's assessment that not enough emphasis was placed on building the right institutional and regulatory environment for overall growth is valid, the Bank's interventions in the energy and transport sector seem to have been appropriate and kept pace with the Government's program. In particular, the Bank's insistence on first ensuring the appropriate legal framework before moving to begin implementation of key institutional reform issues, was correct.

Chairperson's Summary
Committee on Development Effectiveness
Meeting of February 18, 2004

1. The Informal Subcommittee (SC) of the Committee on Development Effectiveness (CODE) met on February 18, 2004 to discuss the Mongolia Country Assistance Evaluation prepared by the Operations Evaluation Department (OED).

2. **OED Evaluation Findings.** The evaluation finds that the Bank's strategy was relevant, but effectiveness was limited by external shocks, lack of continuity in government policy, and the strategic differences with other donors. The Bank was successful in assisting the country to avoid the collapse of key industries and helped improve macroeconomic management. It was, however, slow to move from emergency assistance at the time. The Bank was less successful also in removing the impediments to private sector development and in strengthening institutional capacity. OED rated the outcome of Bank assistance as partially satisfactory, institutional development as modest, and sustainability as unlikely. Mongolia's climate and geography remain constant challenges and thirty six percent of the population continues to live in poverty. The evaluation recommended that future Bank assistance should remain selective and focus on improving fiscal management and the private sector environment.

3. **Comments from Management.** Management welcomed the CAE findings and noted that although the CAE was two years old the findings still remained valid. Management agreed with the finding that support could have been more effective, but also noted that substantive progress had been made. It informed the Subcommittee that Mongolia now had a Poverty Reduction Strategy Paper (PRSP) which gave the first comprehensive articulation of improving the lives of Mongolians within the context of the millennium development goals (MDGs). The Bank was now developing a new strategy for Mongolia to align Bank programs with the PRSP and the CAE was an important part of this analysis. Management added that the Bank had already taken on some of the recommendations of the CAE in the energy sector and public sector management programs. Donors were continuing their dialogue on reform and analytical work was underway on the sources of growth and trade issues.

4. **Main Conclusions and Next Steps.** While noting that OED had rated the outcome of Bank assistance as partially satisfactory, the members believed the Bank had done a good job in what was a difficult country which had a particularly harsh environment, had experienced severe external shocks, and successive regime changes. They welcomed that Management had taken on the CAE's recommendations in the new strategy and Government in its PRSP. Some of the issues raised included (a) sustainability of the Bank's assistance and whether the OED ratings were too harsh; (b) the gap between the Bank's analytical work and operational lending and how Bank advice was being utilized; (c) donor coordination and the challenges to Bank involvement in areas where direct lending was not envisaged; (d) and questions of government ownership and how it could be assessed.

The main points of the Subcommittee's discussion are summarized below:

5. **Bank Performance and OED ratings.** Members asked if perhaps the OED ratings were too harsh given the internal and external constraints facing the country. They noted that implementing structural reform in transition countries is a difficult process. OED noted that it had rated sustainability as unlikely because the Bank's interventions were aimed at short-term actions. OED noted, however, that since the CAE was completed there was a pro-reform government in

place and progress was being made. Members asked what benchmarks the Bank's performance was being compared to in relation to the experience of other transition countries. Management noted that because of its peculiarities Mongolia was difficult to benchmark. OED noted that the country performed well compared to other countries in Central Asia, less well when compared to regional economies, such as China and Vietnam.

6. **Use of Bank's advice**. Some members wondered if the Bank's approach was too theoretical and stressed the need for pragmatic solutions focusing on country-specific critical issues, such as trade barriers and access to markets in China and Russia. With regard to the practicality of the Bank's advice, OED said that the client survey and feedback from stakeholders confirmed that the Government and others placed a high value on the policy advice from the Bank and that such advice was welcomed in sectors where the Bank was not actively lending. Management informed the Subcommittee that the findings of the Public expenditure and country financial analysis (CFA) had influenced the Government's ongoing public sector management reforms and the PRSP. Members noted the gap between the Bank's analytical work and operational lending and asked how the Government was taking the recommendations of the CAE and other economic and sector work on board. Management stressed that there was a need for the Bank to build more synergies between analytical work, advisory services, and project lending. The Bank was also working with the country to address market access in Russia and China.

7. **Areas for more focus**. The Subcommittee identified a number of areas it believed required more focus: First, members thought it would be useful to have a better understanding of how the World Bank Institute, World Bank, and IFC could build on synergies to promote faster private sector growth and enhance capacity efforts. In the latter regard, members touched on the issue of capacity bottlenecks, including weak implementation capacity and the need to focus more on sequencing and timing of reforms and the lack of statistical data. Economic and sector work should focus more on banking, legal, and regulatory reform. They asked how the Bank proposed to address these major challenges. Management noted that the country had benefited from the Trust Fund to Build Statistical Capacity and a national household survey had just been completed. A mechanism was being developed to monitor the implementation of the PRSP. Members suggested that the use of bottom-up participatory approaches be explored in building local-level institutional capacity. Second, Members would have liked to see more analysis on the impact of the Asia crisis on country and Bank performance. Regional management confirmed that equal attention was being given to large and to smaller IDA countries in recognition of the challenges faced by the latter. Third, members believed the issue of income distribution required more focus and they asked for concrete proposals for what could be done about reducing the country's vulnerability to external shocks. Management stressed that issues of equity and vulnerability would be fundamental to the new strategy.

8. **Role of the Bank in Partnerships**. With regard to OED's recommendation that the Bank collaborate with the government and other donors to develop a strategic framework in each key sector, some members questioned the practicalities of Bank involvement in areas where direct lending was not envisaged. Others underlined that while the Bank provided only ten percent of the total aid flows to Mongolia, it still had a key role to play in providing knowledge and taking the lead on donor coordination, and harmonization. The Subcommittee noted the difficult working relationship between the Asian Development Bank (ADB) identified in the report and asked Management to update it on progress in donor coordination efforts. Management was pleased to report that the relationships between the Bank and the ADB had improved significantly over the past four years and that collaborative efforts were underway in a number of areas. Management added that until recently there were no clear government sector or strategic frameworks in place that could guide donor coordination. The PRSP now was a mechanism for

donors to align their strategies and assistance and there was a wide recognition among the donor consultative group of the need for harmonization with a view to enhancing the impact of their efforts. There was wide agreement between the Government, Bank and other donors on the scope of actions for the medium-term expenditure framework.

9. **Ownership.** The Subcommittee noted that the definition of ownerships presented challenges. In this case, ownership was strong at the higher tiers of government but less so in lower tiers and they wondered how strong ownership was given the numerous regime changes. Some members noted that the evaluation made little reference to the interim poverty reduction strategy of the government and to government priorities and they asked to what extent the Bank's programs were aligned to the priority goals of the government and how the lessons from the interim PRSP had been utilized. OED informed the Subcommittee that while the country had experienced seven regimes in 10 years, all of them had a strong commitment to reform but with emphasis on different areas. The Government's commitment to reform has also deepened its understanding over time of the links between goals and reform actions.

10. **Debt Sustainability.** Some members were worried about the increasing external indebtedness of the country given its limited resources and wondered how the debt would be repaid. Management indicated that Mongolia's debt was largely concessional and was sustainable over the medium term.

Rosemary Stevenson
Chairperson, CODE Subcommittee

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