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**PERFORMANCE ASSESSMENT REPORT**

**MONGOLIA**

**Economic Rehabilitation Credit  
(C2320-MOG)**

**Technical Assistance Credit  
(C2321-MOG)**

**Economic Transition Support Credit  
(C2551-MOG)**

**Banking and Enterprise Sector Adjustment Credit  
(C2947-MOG)**

**July 2, 2001**

*Operations Evaluation Department*

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## Currency Equivalents

Currency Unit: Tugrik (Tg)

1992: 250	1999: 863
1993: 400	2000: 1050
1994: 408	
1995: 485	
1996: 480	
1997: 690	
1998: 813	

## Abbreviations and Acronyms

ADB	Asian Development Bank
BESAC	Banking and Enterprise Adjustment Credit
CAE	Country Assistance Evaluation
CAS	Country Assistance Strategy
CIB	Credit Information Bureau
CMEA	Council for Mutual Economic Assistance
EAP	East Asia and the Pacific Region
ERC	Economic Recovery Credit
ESW	Economic and Sector Work
ETSC	Economic Transition Support Credit
FY	Fiscal Year
GDP	Gross Domestic Product
ICR	Implementation Completion Report
ID	Institutional Development
IDA	International Development Association
IMF	International Monetary Fund
MARA	Mongolian Asset Recovery Agency
OED	Operations Evaluation Department
PAR	Performance Assessment Report
SB	Savings Bank
TA	Technical Assistance
USAID	United States Agency for International Development
USSR	Union of Soviet Socialist Republics

## Fiscal Year

January 1 – December 31

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July 2, 2001

**MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT**

**SUBJECT: MONGOLIA - Economic Rehabilitation Credit (C2320-MOG); Technical Assistance Credit (C2321-MOG); Economic Transition Support Credit (C2551-MOG); Banking and Enterprise Sector Adjustment Credit (C2947-MOG) - Performance Assessment Report:**

Attached is the Performance Assessment Report (PAR) on the Economic Rehabilitation Credit (ERC) (C2320, approved in FY92 for US\$30 million); the Technical Assistance Credit (TAC) (C2321, approved in FY92 for US\$5 million); the Economic Transition Support Credit (ETSC) (C2551, approved in FY94 for \$20 million); and the Banking and Sector Adjustment Credit (BESAC) (C2947, approved in FY97 for \$10 million).

The ERC and the ETSC were short-term operations designed to ease Mongolia's difficult early transition period. They aimed at helping maintain short-term macroeconomic stability through general balance of payments support and prevent the collapse of key public enterprises and services in the agriculture, energy (coal, electricity, petroleum), and transport sectors. The TAC sought to develop Mongolia's institutional capacity for macroeconomic management in a market economy and prepare sector studies that would help the government define its medium-term public investment strategy. The BESAC (US\$10 million) was intended to support an ADB-led effort to restore the banking system to the role of an efficient and safe financial intermediary, and to improve the economic and financial performance of selected public and recently privatized enterprises.

The ERC and TAC were highly relevant to Mongolia's priorities in the period 1991-93. IDA's diagnosis that Mongolia was on the verge of economic collapse triggered swift and appropriate support for priority sectors, and averted substantial hardship for a broad segment of the population. The capacity-building goals were also appropriate given limited exposure to market economics among government officials, Mongolia's previous international isolation outside the communist world, and the sudden departure of Soviet technical and managerial personnel. The ETSC responded to the circumstances of the time by providing critical import support. However, with nearly two years experience with the first two projects and the threat of economic collapse less pressing, the Bank could have endeavored to build in longer-term measures into the program.

BESAC's overall objective of improving the efficiency of the financial and enterprise sectors in Mongolia was highly relevant. The project contributed to a broader ADB/IMF-led

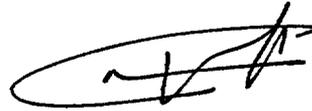
reform program. However, in retrospect, the scope and time horizon of BESAC's contributions were inadequate in relation to the scale of the underlying problems in these sectors and the significant level of public funds committed (8% of GDP).

The ERC and TAC projects achieved all their major objectives and their outcomes are consequently rated *satisfactory*. Concerted donor efforts and improving external circumstances, helped restore stability by the end of 1993 and prevent the collapse of key public services and industries. The TAC financed several useful studies and improved capacity in key central agencies, particularly the Ministry of Finance and the central bank.

The ETSC met its key objectives in the sense that "critical inputs" were delivered and consumed. However, OED rates the project as *moderately satisfactory*, due to its declining relevance after 1994 in supporting public enterprises and because the project missed opportunities to strengthen the private sector.

The BESAC failed to sustain improvements in the banking and enterprise sectors. The project had some success in reducing subsidies to public enterprises, developing insolvency regulation, and strengthening debt workout capacity in a leading public bank. However, its broader objectives were not achieved. Less than three years after completion of the project, three of four state banks were insolvent, debt recovery efforts had stalled, two large restructured public enterprises remained unviable, credit to the private sector remained scarce, and the inefficiency of the banking system remained high. The outcome of the BESAC is thus rated *unsatisfactory*.

Lessons from these projects include: (i) the need to reach full agreement with other donors on approach and implementation strategies prior to co-financing operations involving significant public funds; (ii) the need to include mechanisms for the mid-stream review of emergency response operations to ensure that their relevance has not been eroded by changing circumstances on the ground; (iii) the importance of a comprehensive sector review to precede significant financial assistance in a complex reform area; and (iv) the need for institution-building efforts to aim at strengthening new institutions rather than their creation and implementation of new laws rather than just their passage.

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This report was prepared by Asita De Silva (Task Manager) and Elliot Hurwitz (Consultant). An evaluation mission visited Mongolia in September, 2000. Betty Casely-Hayford provided administrative support.



## Preface

This is the Performance Assessment Report (PAR) on the following loans to Mongolia: (1) Economic Rehabilitation Credit (C2320-MOG); (2) Technical Assistance Credit (C2321-MOG); (3) Economic Transition Support Credit (C2551-MOG); and (4) Banking and Sector Adjustment Credit (C2947-MOG).

The Economic Rehabilitation Credit (ERC) was approved on December 19, 1991 for US\$30 million. It was fully disbursed and closed on June 30, 1994, one year behind schedule. The Technical Assistance Credit (TAC) was approved on December 19, 1991 for US\$5 million. It closed on December 31, 1997, eighteen months behind schedule, after cancellation of a balance of \$0.26 million. The Economic Transition Support Credit (ETSC) was approved on January 24, 1994 for \$20 million. It closed on December 12, 1996, one year behind schedule; a balance of \$0.4 million was canceled. The Banking and Sector Adjustment Credit (BESAC) was approved on May 1, 1997 for \$10 million. It was fully disbursed and closed on schedule on December 31, 1998.

The PAR was prepared by the Operations Evaluation Department (OED). It supplements the Implementation Completion Reports (ICRs) for the four operations and draws on project files, Bank economic and sector work, government reports, external literature, and interviews with Bank staff. An OED mission also visited Mongolia in September 2000 to obtain the views of representatives of the government, NGOs, civil society, the private sector, and academia. The cooperation of all those who contributed to this report is gratefully acknowledged.

The ICRs for the four projects were by and large of good quality and identified useful lessons. The PAR amends two of the ICR ratings: The outcome of the ETSC project is downgraded from satisfactory to moderately satisfactory, and the outcome of the BESAC project is downgraded from satisfactory to unsatisfactory.

The draft Performance Assessment Report was sent to the Borrower for comments but none were received.

## Ratings and Responsibilities

### Performance Ratings

	<i>Economic Rehabilitation Credit (C2320)</i>		<i>Technical Assistance Credit (C2321)</i>	
	ES	PAR	ES	PAR
Outcome	Satisfactory	Satisfactory	Satisfactory	Satisfactory
Sustainability	Likely	Non-Evaluable	Likely	Likely
Institutional Development Impact	Modest	Modest	Modest	Substantial
Borrower Performance	Satisfactory	Satisfactory	Satisfactory	Satisfactory
Bank Performance	Satisfactory	Satisfactory	Satisfactory	Satisfactory

	<i>Economic Transition Support Credit (C2551)</i>		<i>Banking and Enterprise Sector Adjustment Credit (C2947)</i>	
	ES	PAR	ES	PAR
Outcome	Satisfactory	Moderately Satisfactory	Satisfactory	Unsatisfactory
Sustainability	Likely	Non-Evaluable	Likely	Unlikely
Institutional Development Impact	Modest	Modest	Modest	Modest
Borrower Performance	Satisfactory	Satisfactory	Satisfactory	Unsatisfactory
Bank Performance	Satisfactory	Satisfactory	Satisfactory	Unsatisfactory

**Key Project Responsibilities**

	<i>ERC (C2320)</i>			<i>TAC (C2321)</i>		
	<i>TM</i>	<i>Div. Chief</i>	<i>Director</i>	<i>TM</i>	<i>Div. Chief</i>	<i>Director</i>
Appraisal	Paul Cadario	David Pearce	Shahid Javed Burki	Paul Cadario	David Pearce	Shahid Javed Burki
Completion	Hongjoo Hahm	Zafer Ecevit	Nicholas Hope	Natasha Bershorner		Ngozi Okonjo-Iweala
ICR Author:	Natasha Beshorner; Honjoo Hahm			Carolyn Meyer Johnson		

	<i>ETSC (C2551)</i>			<i>BESAC (C2947)</i>		
	<i>TM</i>	<i>Div. Chief</i>	<i>Director</i>	<i>TM</i>	<i>Div. Chief</i>	<i>Director</i>
Appraisal	Carlos Elbirt	Zafer Ecevit	Shahid Javed Burki	Hongjoo Hahm	Klaus Rohland	Nicholas Hope
Completion	Natasha Beschorner	Klaus Rohland	Nicholas Hope	Amanda Carlier	Hoon Mok Chung	Ngozi Okonjo-Iweala
ICR Author:	Natasha Beshorner; Honjoo Hahm			Amanda Carlier		



## 1. Background

1.1 *Setting.* Mongolia is a land-locked country bordered by China and Russia with a GDP per capita of \$400. It is one of the least densely populated countries in the world, with 2.5 million people inhabiting an area half the size of India. About 35 percent of the people are engaged in livestock herding in rural areas. The population is young and educated, with half being under the age of twenty-one and 96 percent of adults literate. Mongolia has an increasingly apparent abundance of mineral resources - including gold, copper, coal, and oil. Some 30 million head of livestock provide 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 large markets in China, Russia and North East Asia. The county's varied terrain, unspoiled habitat, and distinct culture offer tourist development potential. Major development constraints include insufficient market-oriented behavior, resulting from 70 years of isolation and communism; a small domestic market; lack of direct and convenient access to a port; trade barriers to Russian and Chinese markets; a highly dispersed population, rugged terrain, and severe weather conditions, which together render cost-effective provision of public social and economic infrastructure difficult.

1.2 *Good social indicators, but an unsustainable economy during the communist era.* Between 1924 and 1990, Mongolia maintained a centralized command economy that was closely linked to the Soviet bloc, but isolated from the rest of the world. Large copper, leather, wool, coal, cashmere, and food processing industries were established and supported by state orders from Soviet-bloc countries, subsidized inputs, low interest loans, and government grants. In the 1960's, a subsidized crop sector (eventually accounting for 8% of GDP) was introduced to enhance the prospects of food self-sufficiency. Substantial investments in the social sectors enabled by generous aid from the USSR (which reached 30% 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 sharp internal and external imbalances; dependence on Soviet good-will; an inefficient, capital-intensive, and subsidy-dependent industrial base; suppressed livestock productivity due to collectivization; and frequent shortages of basic consumer goods. In the mid-1980s, *glasnost* and *perestroika* policies in the USSR stimulated parallel movements in Mongolia, leading to the abandonment of one-party rule and the command economy and the holding of the first free elections in Mongolian history in July 1990.

1.3 *Severe external shocks in the early 1990s.* The government elected in 1990 comprised a group of enthusiastic young Mongolian reformers who set about implementing a rapid series of reforms to consolidate the democratic process and liberalize the economy. However, it faced collapsing Soviet-era industries, termination of Soviet aid, lower commodity prices, and fears that deteriorating public services would lead to a humanitarian crisis during the long Mongolian winters. It appealed to the donor community for immediate assistance, which responded with significant balance of payments support under the umbrella of an IMF-led stabilization program. Included in this donor response was the Bank's Economic Rehabilitation Credit (ERC) (C2320) approved in December 1991 and the Economic Transition Support Credit (ETSC)

(C2551) approved in October 1993, which aimed to help stabilize the economy and prevent a collapse in selected public services and industries.

1.4 *Lack of capacity to manage a market-economy.* As Mongolia emerged from the socialist period in 1990, it became apparent that there was a severe shortage in knowledge and skills that would be required to establish the institutional framework for a market-economy. Government officials had had little exposure to market economics; trade and other international interactions had been restricted almost exclusively to the communist world; and the departure of Soviet personnel had created a void in technical and managerial capacity. Meanwhile a complex agenda loomed involving identifying, designing, sequencing, and implementing a broad range of difficult reforms. Several donors including the IMF, UNDP, and ADB responded with technical assistance to transfer skills and build capacity as did the Bank through its Technical Assistance Credit (TAC) (C2321) approved in December 1991.

1.5 *Crises in the financial sector.* Financial sector crises were seen in 1992, 1994, 1996, and 1998 and a key issue that emerged on the reform agenda was the need to shift Mongolia's banking sector from an instrument of government transfers to an efficient provider of financial services. 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 had resulted in a rapid increase the commercial banks' non-performing loan portfolios. In 1996, the Asian Development Bank (ADB) led a major effort supported by the IMF and the Bank to restructure the banking and enterprise sectors. The Bank's Banking and Enterprise Sector Adjustment Credit (BESAC) (C2947) was approved in FY96 toward this end. A parallel Banking, Enterprise, and Legal Technical Assistance Credit (not evaluated in this report) was also approved to help build capacity in these areas.

1.6 *Overall Bank strategy.* The Bank's overall strategy in Mongolia during the 1990s comprised two broad phases: (1) emergency transition support between 1991 and 1996 and (2) support for longer-term structural reforms and investments after 1996. Alongside the operations mentioned above, other interventions in the first phase included investments to rehabilitate transport services (FY94) and the coal sector (FY96) and a social-fund type poverty alleviation project (FY96). Interventions after 1996 included a pilot urban water supply project, two further interventions in the banking sector, and technical assistance to improve fiscal management. In total, the Bank committed \$208 million to Mongolia between 1991 and 2000, representing approximately 10% of the country's total aid flows during the period. Economic and sector work comprised three CEMs (FY92, FY95, and FY98); sector reports in agriculture (FY95), energy (FY96), and transportation (FY99); a poverty assessment (FY96); and a public enterprise review (FY97). The Bank also played an active role in donor coordination, co-chairing seven donor assistance group meetings in the 1990s.

**Figure 1. Four Evaluated Projects and Related Loans**

	\$M	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
➡ <b>Technical Assistance Credit</b>	6.8										
➡ <b>Economic Rehabilitation</b>	30										
➡ <b>Economic Transition Support Credit</b>	20										
Transport Rehabilitation	30										
Poverty Alleviation	10										
Coal	35										
Ulaanbaatar Service Improvement	16.7										
Banking, Enterprise, and Legal Technical Assistance Credit—BELTAC	2										
➡ <b>Banking, Enterprise Support-BESAC</b>	10										
➡ <i>designates projects included in this evaluation</i>											

## 2. Project Objectives and Design

### Project Objectives

2.1 *Economic Recovery Credit (ERC)*. The objectives of the FY91 ERC (US\$30 million) were to help (i) rehabilitate, maintain, and operate public enterprises and services in the agriculture, energy (coal, electricity, petroleum), and transport sectors by financing essential equipment, materials, and spare parts; (ii) maintain short-term macroeconomic stability through general balance of payments support; (iii) familiarize Mongolian institutions with international procurement and financial procedures in order to help diversify the supply sources of commodities and products.

2.2 *Technical Assistance Credit (TAC)*. The parallel FY91 TAC (US\$6.8 million) aimed to (i) help Mongolia develop its institutional capacity for macroeconomic management in a market economy by financing external advisors, in-country and overseas training, and material support for key ministries; and (ii) finance preparation of sector studies (to be subsequently identified) that would help the government define its public investment strategy.

2.3 *Economic Transition Support Credit (ETSC)*. The objectives of the FY94 ETSC (US\$20 million) were to (i) help maintain and develop the state-owned coal, copper, and transport sectors by financing urgently-needed equipment and spare parts and by providing technical assistance to the coal and copper enterprises; (ii) provide overall balance of payments support during the 1993-1995 period, both directly and by catalyzing support from other donors; and (iii) establish quarterly adjustments in consumer energy prices.

2.4 *Banking and Enterprise Support Credit (BESAC)*. The FY97 BESAC (US\$10 million) aimed to support an ADB and IMF-led effort to restore the banking system as an efficient and safe financial intermediary, and to improve the economic and financial performance of select public and recently privatized enterprises. Specific objectives of BESAC were to (i) assist in bank restructuring, including liquidation of two insolvent banks, creation of a new public commercial bank and new public savings bank; (ii) support loan recovery efforts through creation of an independent debt recovery agency and a debt recovery workout unit in a large public bank; (iii) halt the flow of bad loans to defaulters by establishing a credit information bureau; (iii) impose hard budget constraints on SOEs; and (iv) restructure several large enterprises. The loan was also intended to help meet external financing requirements and support the budget that would be burdened by the cost of these reforms. The parallel Banking, Enterprise, and Legal Technical Assistance Credit (BELTAC) (not evaluated in this report) was intended to strengthen the legal environment and build capacity in these areas.

**Table 1—Objectives of Four Evaluated Projects**

<i>OBJECTIVE/COMPONENT</i>	<i>TAC</i>	<i>ERC</i>	<i>ETSC</i>	<i>BESAC</i>
▶ Provide balance of payments support to promote macroeconomic stability		▶	▶	▶
▶ Develop institutional capacity for macroeconomic management	▶			
▶ Demonstrate feasibility of selected public investments	▶	▶	▶	
▶ Finance critical inputs to maintain and develop core economic sectors		▶	▶	
▶ Familiarize Mongolian institutions with int'l procurement and financial procedures		▶	▶	
▶ Improve management of coal and copper mines			▶	
▶ Bank reform				
▶ Bank restructuring				▶
▶ Establish workout agency				
▶ Report on largest loans				
▶ Enterprise reform				
▶ Impose hard budget constraints				▶
▶ Implement restructuring plans				

### **Assessment of Objectives and Design**

2.5 *Early emergency support and capacity-building objectives were fully appropriate.* The ERC and TAC were highly relevant to Mongolia's priorities in the period 1991-93. The diagnosis of the threat of economic collapse appears valid. Without swift support for priority sectors, there might have been substantial hardship for a broad segment of the population. It was appropriate that no policy conditionality was attached to these first efforts, as the capacity of the GOM would have been strained. Moreover, the government was positively inclined toward many early reforms and actively involved in a policy dialogue with other donors (particularly IMF, USAID). The secondary goals of building capacity in macroeconomic management (a process also led by the IMF) and of

exposing Mongolia to the trade and finance practices of market economies were appropriate for a country that had only recently emerged from central planning.

*2.6 ERC design was appropriately straightforward.* The structure of the ERC was relatively straightforward, with IDA providing payments against purchases of inputs specified by the relevant ministries and procurement facilitated by a long-term procurement advisor. A particular feature of the loan was that, as a “special exception,” up to 25% of project supplies could be procured from non-member countries (i.e., Russia) because suitable products could not readily be obtained from other sources. The project included a detailed list of eligible imports and quantities rather than a negative list, because IDA reasoned that capacity in the country was limited, and that IDA had had no prior experience in the country. In the event, some inputs were incorrectly specified, due to an erroneous estimation of demand. This was the case with the agricultural inputs purchased under the loan, which could not be re-sold domestically and were subsequently re-exported. The experience illustrated the inherent weaknesses in Mongolia’s centrally-planned input and output target setting mechanisms.

*2.7 TAC design was somewhat complex.* The TAC, provided in conjunction with assistance from several other donors (including the IMF, UNDP, and ADB and several bilateral donors), presented a complex administrative challenge for the inexperienced Mongolian government. The TAC was coordinated by the Ministry of Finance (MOF), with other beneficiary agencies managing activities within their responsibility. A portion of the IDA credit was administered by UNOPS, while the PHRD grant was administered by the Government and the IMF under a joint agreement. UNDP administered its own grant. These arrangements were complex, and required intensive supervision on the part of both the Bank and the GOM.

*2.8 The relevance of ETSC declined after the immediate crisis passed.* The ETSC is assessed to have been only modestly relevant to the country’s development needs. The credit was intended to be the last quick-disbursing credit for critical inputs, with future Bank operations to be focused on investment in priority sectors. However, by the end of 1993, with nearly two years experience with the first two projects and the threat of economic collapse less pressing, the Bank could have developed a longer-term approach to lending. Mongolian officials familiar with the operation offered the view, that under ETSC, the Bank offered “only funding, no policy advice”. Although ESW was undertaken to impart such advice, an import-support loan without policy conditions was not an appropriate instrument to stimulate these reforms. As with the first project, the ETSC also specified a list of imports and quantities rather than a “negative list”. However, given that IDA was now more familiar with the government, it is unclear why a negative list approach, which would have allowed greater flexibility during the rapidly changing circumstances of the time, was not employed.

*2.9 BESAC had an inadequate scope and time horizon to address deep-seated problems in the financial sector.* While BESAC’s overall objective of improving the efficiency of the financial sector in Mongolia was highly relevant, its design in relation to the magnitude of the problem was modest and did not reflect an adequate diagnosis of the problems in the sector. Weaknesses in the banking sector arose from a range of issues, including (i) the limited private sector manufacturing response in the 1990s, which

deprived the banks of viable commercial customers; (ii) the pervasive legacy of directed lending and the limited consequences of poor lending decisions; (iii) weak enforcement of legal provisions governing lending contracts; (iv) pervasive state involvement in the banking and corporate sectors; (v) excessive government borrowing and failure to honor payment arrears; (vi) a severe shortage of people with requisite banking skills; (vii) lack of accounting standards and transparency about the financial health of borrowers; and (viii) inadequate supervision capacity in the central bank. While BESAC represented a step toward addressing some of these issues, the thrust of the program was to recapitalize the banks without correcting the causes of dysfunctional lending behavior. Creation of a new public bank to replace the defunct one's was also, in retrospect misguided. BESAC was initially designed as a larger, more ambitious project, but was cut back after ADB assumed leadership of the financial sector reform effort among donors. As a consequence, BESAC's conditionality was diluted to include only a relatively mild set of conditions that were expected to be completed within 18 months.<sup>1</sup> It was also reduced from a 2-tranche operation to a single-tranche operation, which reduced the Bank's leverage. This was unfortunate given the high stakes involved in this financial sector rescue. The overall program called for the government to invest 8% of GDP to recapitalize the banks and restructure major defaulters. In retrospect, given the considerable public funds involved, the program should have developed a more significant set reforms, with a longer time horizon.

**Table 2: Relevance of Evaluated Projects**

<i>Relevance</i>	<i>TAC</i>	<i>ERC</i>	<i>ETSC</i>	<i>BESAC</i>
High	▶	▶		
Substantial				
Modest			▶	▶
Negligible				

<sup>1</sup> BESAC conditions are presented in detail in the MOP and ICR.

### 3. Achievement of Objectives

3.1 *The ERC met its objectives.* The objectives of the ERC were met. The imports financed under the loans helped mitigate the decline in production and consumption and avoid excessive hardship by maintaining adequate levels of heat, transport, and electricity services during the winters of 1991-93. The operation adequately contributed to the IMF-led stabilization program and while Mongolia's GDP fell by 20% between 1989 and 1993, this drop was relatively modest compared to those in other transition countries. Most macroeconomic balances were restored by the end of 1993. The project had a good demonstration effect in helping Mongolia accustom itself to procuring and using goods from sources other than the USSR. As indicated above, a shortcoming of the ERC was that some "critical inputs" were poorly specified and could not be re-sold. This was particularly the case when end-users were highly dispersed (i.e. in agriculture and transport) rather than when they were the monolithic buyers in the energy and mining sectors.

3.2 *The TAC met its objectives.* The TAC was able to provide technical assistance to a wide range of GOM agencies that helped improve economic management. In general, Mongolian officials were eager to absorb new ideas and welcomed the software,<sup>2</sup> written materials, and study tours abroad that were financed under the program. A series of studies were financed in the energy (overall sector, coal, oil), agriculture, and foreign trade areas. These studies supported identification of a Bank project in the coal sector, development of a new mining law, and the government's liberalization of its trade regime. Expatriate advisors helped fill skill gaps in central agencies as well as several SOEs. An investor's conference was funded in 1997 which brought together some 125 potential investors in the mining and energy sectors. The project's achievements were somewhat undermined by high staff turnover toward the mid-1990s, which affected capacity in key central agencies. In addition, expatriate advisors performing functions rather transferring skills was a concern among some Mongolians, as was their high relative cost. The project also suffered from numerous delays due to difficulties in coordination the large number of beneficiary agencies; frequent turnover of the project manager; and parallel assistance from other donors that strained absorptive capacity.

3.3 *The ETSC met its major objectives, although energy prices were not adjusted.* The ETSC project also achieved its objectives in that "critical" inputs specified by the public agencies were purchased and consumed. Rehabilitation of the state-owned coal and railways enterprises helped maintain energy and transport services. Technical assistance and financial support to the copper mine – which then accounted for over 50% of exports – supported export levels, which in turn helped maintain macroeconomic stability. Two technical studies were also completed under the project: a coal pricing study helped develop the follow-on Coal Project and a study on the environmental impact of the copper mine provided guidance in costing measures to limit the adverse impact of the mine on the local population. However, the loan's secondary objective of establishing periodic adjustments of consumer energy prices was not achieved due to political and social concerns on the part of the government. The failure to rationalize end-user prices

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<sup>2</sup> New accounting software was provided to the BOM and to several SOEs, and UNCTAD provided customs documentation software in conjunction with the TAC effort to upgrade customs functions.

meant that large public firms, including the sole copper exporter, continued to benefit from subsidized public services and utilities. In addition, as indicated above, delays in procurement meant that 20% of the project amount financed “emergency” inputs for public commercial activities in 1996-1997, well after the initial crisis had abated.

3.4 *BESAC did not meet its objectives.* The financial sector reform program supported by BESAC saw some early successes, but over the longer-run, failed to achieve most of its objectives. In 1996/97, the two insolvent public banks were closed; the Mongolian Asset Recovery Agency (MARA) was created to take over bad loans; a new public commercial bank was created and capitalized; deposits of the defunct banks were transferred to a newly-established Savings Bank (SB); directed or inherited loans were replaced with government bonds; subsidies to public enterprises were reduced; and steps were begun to restructure two of the largest defaulting public enterprises. As expected, the total cost of the program was over 8% of GDP. However, while the clean balance sheets of the banks helped show a temporary improvement in 1997/8, this was not sustained. By June 30 1998 41% of all bank loans were classified as non-performing (up from 30% in 1997), with 70% of the bad loans concentrated in 3 banks. By 2000, three of the state banks comprising 21% of total bank assets (including the one created in 1997) were illiquid and insolvent. The Savings Bank, while still operating as the “safe” repository of about two-thirds of household deposits, is not functioning as a bank and its viability is in question due to irregular servicing of the government bonds it holds. MARA managed to recover some 25% of the bad debt transferred to it, but procedures and management remain weak and loopholes in the wider legal and contractual framework hampered further debt collection. Direct subsidies to public firms were significantly reduced. However, the two large public enterprises that were provided restructuring funds remain unviable and loss-making public commercial entities. In mid-2000, credit to the private sector amounted to just 5% of GDP; three of the four largest banks (which accounted for 80% of banking sector assets) remained fully state-owned; the spread between deposit and lending rates was over 20%; and liquidity ratios of the two healthy banks approached 75% (despite prudential norms of 18%), indicating a limited interest in investment financing.

**Table 3: Impact of the BESAC Program**

<i>Impact Indicators (as listed in the MOP)</i>	<i>Result</i>	<i>Remarks</i>
Financial deepening as measured by increase in M2 to GDP from 23% in 1996 to 30% by end 1998	Not achieved	The Savings Bank, Reconstruction Bank and MARA were established. However RB became insolvent and was closed in 2000. M2/GDP declined to 19% by end 1998 and then increased to 25% in 1999. Credit to the private sector was just 5% of GDP in 1999.
Improved asset quality of individual banks, measured through repayment record of new loans given since 1997	Not achieved	After temporary improvement due to the BESAC supported program, asset quality deteriorated in 1998/99, reversing virtually all earlier achievements. At the end of 1999, non-performing loans to total were 45% at TDB; 77% at Agriculture Bank; 92% at ITI bank; and 29% at the Savings Bank; and 100% at Reconstruction Bank. The effort cost the government some 8% of GDP, with little to show for it.
Establishment of workout agencies in all commercial banks by end 1999	Partially achieved	The Trade and Development Bank established a workout agency and made progress in recovering bad loans. However bad loans of the other banks were not recovered.
Darkhan Minimetel and Bagahangai Meat plants restructured/liquidated by end 1998	Not achieved	Restructuring studies were completed and Dharkan and Bagahangai were provided with loans and capital transfers for restructuring. However, both firms continue to operate as loss-making public enterprises.
Reduction of budget deficit/GDP ratio from 9% in 1996 to 7.3% in 1999	Partially achieved	The budget deficit expanded and targets were not met, although was partly due to shocks resulting from the East Asian crisis. Direct subsidies to public enterprise were substantially reduced.
Electricity and heating enterprises receive loans at central bank bills rates in 1998 and at market rates in 1999	Partially achieved	The government has reduced subsidies to and refrained from lending to the energy authority since 1997. This achievement has been somewhat off-set by continued high levels of capital transfers to the EA.

## 4. Performance Ratings

### Outcome

4.1 *Outcome was satisfactory under the first three credits but unsatisfactory under the BESAC.* OED agrees with the *satisfactory* outcome ratings in the ICRs for the ERC and TAC projects. The credits were relevant to Mongolia's development priorities at the time and their objectives were achieved. The outcome of the ETSC is rated *moderately satisfactory* rather than "satisfactory" as in the ICR. The ICR's rating is based on the project's successful delivery of "critical inputs," while OED's rating reflects the declining relevance of the project as the emergency period receded and the missed opportunity to strengthen the private sector. The BESAC project is rated *unsatisfactory*, as opposed to the ICR's rating of "satisfactory". BESAC's objective of strengthening the banking and enterprise sector was highly relevant and it helped achieve some steps in the right direction. However, its design was inadequate to meet the scope of the problem and in the longer-run, it failed to meet most of its objectives in the banking and enterprise sectors. It should be noted that the BESAC ICR was based on a mission in November, 1998 and it duly noted that it was "too early to evaluate BESAC's contribution."

### Sustainability

4.2 *Sustainability is not evaluable in the transition support credits, likely in the TAC, and unlikely in BESAC.* Sustainability for the ERC and the ETSC is rated as *not evaluable* because these projects were not intended to be sustained. Their objectives were to provide critically-needed inputs, ensure immediate production and consumption, and provide short-term stability. The sustainability of the TAC is judged to be *likely*. Studies performed under the project were used by the Government to define priority sectors for public investment. Several of the studies led to investment operations (Transport, Coal, Poverty Alleviation) and the credit laid a foundation for several additional public investments and policies. The sustainability of BESAC is rated as *unlikely* because the loan was unsuccessful in addressing many of the underlying weaknesses in the banking system. Within a year after its close the country was beset with yet another banking system crisis—the fourth of the decade, demonstrating the limited long-term impact of the BESAC-supported reform program.

### Institutional Development Impact

4.3 *ID impact was substantial under the TAC and modest under the other three credits.* ID impact for the TAC is rated as *substantial*. The project helped change the "mindset" of Mongolian officials as they moved from a centrally planned to a market economy. A number of studies funded under TAC contributed significant knowledge to their sectors. Capacity in key central agencies, including the Ministry of Finance and the central bank was strengthened. The impact of the project were somewhat undermined by high turnover of trained staff in the mid-1990s. ID impact for the ERC is rated as *modest*, in agreement with the ICR. The project did not have major institutional development objectives and most of the sector studies originally envisaged for the ERC were completed under the TAC (except for the petroleum study). At the same time, the project had a substantial impact on the Ministry of Trade and Industry's capacity in the area of

international procurement. ID impact for the ETSC is also rated *modest*, again in agreement with the ICR. The project provided management advice and information systems to the coal and copper corporations, although these efforts are threatened by continued financial difficulties in these public corporations. Skills in procurement and international trade transactions were further developed in the MTI, although these were undermined by the MTI's declining role in direct purchases and high staff turnover. As noted earlier, the only policy objective of the loan—on energy pricing—was not met. ID impact for the BESAC is rated as *modest*, in agreement with the ICR. The project helped create agencies such as MARA and CIB, although they remain fragile and relatively ineffective. It also supported passage of a draft insolvency law 1998 and had a positive impact on skill development in the central bank and the Trade and Development Bank. Its impact on bank privatization and corporate restructuring was limited, however.

**Table 4. Performance Ratings**

	<i>TAC</i>	<i>ERC</i>	<i>ETSC</i>	<i>BESAC</i>
<b>Outcome</b>	Satisfactory	Satisfactory	Moderately Satisfactory*	Unsatisfactory*
<b>Sustainability</b>	Likely	Not Evaluable*	Not Evaluable*	Unlikely*
<b>Institutional Development Impact</b>	Substantial	Modest	Modest	Modest
<b>Bank Performance</b>	Satisfactory	Satisfactory	Satisfactory	Unsatisfactory*
<b>Borrower Performance</b>	Satisfactory	Satisfactory	Satisfactory	Unsatisfactory*

\* Differs from EM/EVM rating

### **Bank Performance**

4.4 *Bank performance was satisfactory under ERC, TAC and ETSC.* Bank performance for the ERC is judged to be *satisfactory*. As noted earlier, the objectives and design of project were relevant and appropriate for a country in the first few years of transition. Supervision was intensive and included “step-by-step advice” by Bank staff

as Mongolia accustomed itself to dealing with the outside world. Bank performance under the TAC was also *satisfactory*. The project was timely and responsive to Mongolia's emerging needs, supervision was intensive, and the Bank showed flexibility in resolving problems. However, greater coordination with other donors would have helped reduce the burden that numerous TA projects placed on government implementation capacity in the mid-1990s. Bank Performance for the ETSC is also rated as *satisfactory*, although with some qualifications. The project responded to the circumstances of the time by providing immediate stabilization support. Nevertheless, with nearly two years experience with the first two projects and the threat of economic collapse less pressing, the Bank could have endeavored to build in longer-term measures into the program as well. The declining relevance of the ETSC as the crisis receded meant that Bank staff efforts were consumed by attention to public sector procurement details rather than to broader private sector development issues. A review of the ETSC ought to have been considered around 1994-95 when it became clear that Mongolia's priorities were changing.

4.5 *Bank performance under the BESAC was unsatisfactory.* While the Bank deferred to the ADB/IMF lead in the banking sector, it nevertheless contributed to the 8% of GDP expended on it. BESAC did not reflect an adequate diagnosis of problems in the financial and enterprise sectors and the strength of its conditions and its duration fell short of what was required to address underlying problems. The Bank did not undertake a comprehensive financial sector review until 1999, several years after the design of BESAC. Relations between the Bank and the ADB were uneven and in the interests of "donor coordination", the Bank gave ADB the "lead" in the sector and scale back its efforts.<sup>3</sup> However, as it turned out, BESAC's scale 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. In retrospect, the Bank's decision to co-finance the reform program, without reaching full agreement on its approach and implementation was an error. In implementation, BESAC funds were fully disbursed in a single tranche on January 6, 1998, just a few weeks before the project's only supervision mission. This timing is questionable in that, while it supported the stabilization objectives of the loan, it also removed any leverage the Bank had in promoting full implementation of the structural reforms in the program. The credit's rapid 13-month time-frame did not permit a mid-course reassessment or correction and IDA's one supervision mission focused narrowly on the process conditions of the loan.

### **Borrower Performance**

4.6 *Borrower performance was satisfactory except under BESAC.* Borrower performance for the first three credits is rated *satisfactory*. GOM agencies implemented the projects as required and collaborated closely with Bank staff. This was sometimes difficult given the Borrower's capacity in the first few years of the decade. A strong commitment to the projects and to the underlying efforts to establish the economy on a

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<sup>3</sup>ADB Loans and Technical Assistance Grant to Mongolia for the Financial Sector Program, November, 1996: US\$35 million adjustment loan; US\$3 million technical assistance loan; and US\$1 million technical assistance grant.

sustainable basis was clearly evident. Under the BESAC, Borrower performance is rated *unsatisfactory*. The government cooperated in development of new legislation, creation of new agencies, and other requirements as identified in the project. However, the restructuring of the two largest SOEs as envisioned under the loan was not carried out. Initiation of new forms of indirect subsidization, such below-market credit, non-repayment of bank debt, below-market utility prices, and deferral of tax payments violated the spirit of project commitments. The unsatisfactory performance of the Borrower can be partly attributed to the political turbulence experienced by Mongolia in the second half of the decade, as well as by the general fear of the social consequences of many actions advocated by the Bank, e.g., enterprise downsizing or liquidation.

## 5. Lessons

- *Parallel efforts were required to support private sector development.* The Bank's emergency loans helped maintain short-term stability but had limited impact on the longer-term goal of establishing a market-economy. Unlike in other transition countries, the Bank did not have significant parallel interventions aimed at private sector development and the impact of propping up select public services and industries on the rest of the economy was overestimated as a range of other factors impeded a strong supply response.
- *Emergency-type operations should include a mechanism for mid-stream review.* Emergency response operations should retain a good degree of flexibility, including a mechanism for a midstream review in order to ensure that changing circumstances on the ground have not eroded the relevance of the response.
- *Effective donor coordination requires full agreement on the strategic approach to a sector.* In the interests of promoting "donor coordination", the Bank supported other donors' lead in banking reform without fully reaching agreement on design and implementation strategies. This contributed to an unsatisfactory program design and less than effective supervision. In retrospect, differing approaches should have been addressed and fully resolved prior to the commitment of large amounts of financing.
- *A comprehensive sector review must precede significant financial assistance in a complex reform area.* As designed, BESAC was inadequate in terms of the strength and duration of the actions specified to meet the magnitude of the sector's problems. Preparation of a comprehensive sector review (which was done several years after the design of BESAC) prior to financing reforms would have enhanced the relevance of the program and its likelihood of success.
- *Effective institution-building efforts should go beyond creation of new agencies and regulations.* Bank support helped establish new agencies and design and pass new regulations. However, weaknesses are apparent in both the effectiveness of the new agencies and in the implementation of the new regulatory framework. For effective institution-building, equal attention must be paid to strengthening institutions rather than just their creation, and implementation of new laws rather than just their passage.

**Table 5: Outcome Ratings, by Project Objective**

<i>PROJECT/OBJECTIVE</i>	<i>Highly Satisfactory</i>	<i>Satisfactory</i>	<i>Moderately Satisfactory</i>	<i>Moderately Unsatisfactory</i>	<i>Unsatisfactory</i>	<i>Highly Unsatisfactory</i>
<b>TAC</b>						
▶ Develop institutional capacity for macroeconomic management		▶				
▶ Demonstrate feasibility of selected public investments		▶				
<b>ERC</b>						
▶ Finance critical inputs to maintain and develop core economic sectors		▶				
▶ Familiarize Mongolian institutions with int'l procurement and financial procedures		▶				
<b>ETSC</b>						
▶ Finance critical inputs to maintain and develop core economic sectors			▶			
▶ Improve management of coal and copper mines		▶				
▶ Meet policy conditions on raising tariffs for publicly owned utility and transport companies					▶	
<b>BESAC</b>						
▶ Bank reform					▶	
▶ Strengthen Debt Workout Capability					▶	
▶ Improve Banking Sector Regulation			▶			
▶ Enterprise reform						▶

## Basic Data Sheets

### I. ECONOMIC REHABILITATION CREDIT (CREDIT 2320-MOG)

#### Key Project Data (amounts in US\$ million)

	<i>Appraisal estimate</i>	<i>Actual or current estimate</i>	<i>Actual as % of appraisal estimate</i>
Loan amount	30	31.4	105%
Domestic Contribution	7.95	8.8	111%

#### Cumulative Estimated and Actual Disbursements

	<i>FY92</i>	<i>FY93</i>	<i>FY94</i>	<i>FY95</i>
Appraisal estimate (US\$M)	15	30	0	0
Actual (US\$M)	15.2	26.9	30.1	31.4
Actual as % of appraisal	101.3%	89.6%	-	-
Date of final disbursement:	November 22, 1994			

#### Project Dates

	<i>Original</i>	<i>Actual</i>
Identification	07/29/91	07/29/91
Preparation	08/12/91	08/12/91
Appraisal	10/05/91	10/05/91
Negotiations	11/15/91	11/15/91
Board approval	12/19/91	12/91/91
Signing	12/27/91	12/27/91
Effectiveness	01/20/92	02/20/92
Completion	12/20/93	09/15/94
Closing date	06/30/93	06/30/94

#### Staff Inputs (staff weeks)

	<i>Planned</i>	<i>Actual</i>
Through Appraisal	33.8	18.9
Appraisal - Board	9.8	15.6
Supervision	12	23.9
Completion	10	13.9
Total	65.6	72.3

## Annex A

**Mission Data**

<i>Status of project cycle</i>	<i>Month/ Year</i>	<i>No. of persons</i>	<i>Days in field</i>	<i>Performance Rating<sup>2</sup></i>	
				<i>Implementation Status</i>	<i>Development Objectives</i>
Through Appraisal	8/91	4	12	--	--
Supervision 1	03/92	2	10	1	NR
Supervision 2	11/92	2	10	1	NR
Supervision 3	04/93	2	6	1	NR
Completion	6/94	3	5	1	NR

Performance rating

1 = Highly satisfactory

2 = Satisfactory

3 = Unsatisfactory

4 = Highly unsatisfactory

**Other Project Data**

Borrower/Executing Agency: Government of Mongolia

**FOLLOW-ON OPERATION**

<i>Operation</i>	<i>Loan no.</i>	<i>Amount (US\$ million)</i>	<i>Board date</i>
Economic Transition Support Credit	C2551- MOG	20	28-Oct-93

**II. TECHNICAL ASSISTANCE LOAN (CREDIT 2321-MOG)****Key Project Data** (amounts in US\$ million)

	<i>Appraisal estimate</i>	<i>Actual or current estimate</i>	<i>Actual as % of appraisal estimate</i>
Loan amount	5	5	100%

**Cumulative Estimated and Actual Disbursements**

	<i>FY92</i>	<i>FY93</i>	<i>FY94</i>	<i>FY95</i>	<i>FY96</i>	<i>FY97</i>	<i>FY98</i>
Appraisal estimate (US\$M)	0.2	0.7	2.4	4.2	5.0		
Actual (US\$M)	0.4	1.4	2.9	3.6	4.2	4.8	5.0
Actual as % of appraisal	200%	200%	121%	86%	84%		
Date of final disbursement:	March 20, 1998						

## Project Dates

	<i>Original</i>	<i>Actual</i>
Identification		4/91
Appraisal	10/91	10/91
Negotiations		11/91
Board approval	1/92	12/19/91
Signing		12/27/91
Effectiveness	3/26/92	3/12/92
Project completion	12/31/95	6/30/97
Closing date	6/30/96	12/31/97

## Mission/Staff Inputs (staff weeks)

	<i>Month/year</i>	<i>No. of persons</i>	<i>Days in field</i>	<i>Implementation status</i>
Through Appraisal	Jul-91	4	14	...
Appraisal through Board	Oct-91	6	14	...
Supervision 1	Feb-92	3	8	S
Supervision 2	Jul-92	4	8	...
Supervision 3	Oct-92	4	7	S
Supervision 4	Apr-93	2	6	S
Supervision 5	Dec-93	2	6	S
Supervision 6	Jul-94	2	6	S
Supervision 7	Feb-95	2	11	S
Supervision 8	Apr 95	1	5	...
Supervision 9	Sep95	2	2	S
Supervision 10	Feb-96	1	3	...
Supervision 11	May-96	2	3	S
Supervision 12	Jun-97	1	5	S
Completion				S

## Other Project Data

Borrower/Executing Agency: Government of Mongolia

### *FOLLOW-ON OPERATIONS*

<i>Operation</i>	<i>Loan no.</i>	<i>Amount (US\$ million)</i>	<i>Board date</i>
Coal Project	C2850	35	7 May 1996
Fiscal TA	C3081	5	2 Jun 1998

## Annex A

**III. ECONOMIC TRANSITION SUPPORT CREDIT (CREDIT 2551-MOG)****Key Project Data** (amounts in US\$ million)

	<i>Appraisal estimate</i>	<i>Actual or current estimate</i>	<i>Actual as % of appraisal estimate</i>
Loan amount	20	20.68	103

**Cumulative Estimated and Actual Disbursements**

	FY94	FY95	FY96	FY97
Appraisal estimate (US\$M)	15	20		
Actual (US\$M)	10.1	16	18.7	20
Actual as % of appraisal	67%	80%		
Date of final disbursement:	March 12, 1997			

**Project Dates**

	<i>Original</i>	<i>Actual</i>
Identification	01/93	01/93
Appraisal	6/93	6/93
Negotiations	9/93	9/93
Board approval	10/93	10/93
Loan agreement	11/93	11/93
Effectiveness	01/94	01/94
Project completion	6/95	12/96
Closing date	12/95	12/96

**Mission/Staff Inputs** (staff weeks)

	<i>Month/year</i>	<i>No. of persons</i>	<i>Days in field</i>
Preparation	4/93	4	
Appraisal	7/93	4	5
Supervision 1	7/94	4	6
Supervision 2	5/95	5	5
Supervision 3	11/95	2	1
Supervision 4	5/96	2	2
Completion	11/96	2	2

## Other Project Data

Borrower/Executing Agency: Government of Mongolia

<i>FOLLOW-ON OPERATIONS</i>			
<i>Operation</i>	<i>Loan no.</i>	<i>Amount (US\$ million)</i>	<i>Board date</i>
Transport Rehabilitation Credit	C2615	30	24-May-94
Coal Project	C2854	35	7-May-96

## IV. BANKING AND ENTERPRISE ADJUSTMENT CREDIT (LOAN 2947-MOG)

### Key Project Data (amounts in US\$ million)

	<i>Appraisal estimate</i>	<i>Actual or current estimate</i>	<i>Actual as % of appraisal estimate</i>
Loan amount	10	9.7	97%

### Cumulative Estimated and Actual Disbursements

	<i>FY98</i>
Appraisal estimate (US\$M)	10
Actual (US\$M)	9.7
Actual as % of appraisal	97%
Date of final disbursement: January 31, 1998	

### Project Dates

	<i>Original</i>	<i>Actual</i>
Identification	June 1995	June 26, 1995
Appraisal	Oct 1996	Feb 02, 1997
Negotiations	Nov 1996	Feb 25, 1997
Board Presentation	December, 1996	May 01, 1997
Signing	July 31, 1997	July 31, 1997
Effectiveness	Nov 26, 1997	Nov 26, 1997
Project Closing	June 26, 1997	June 26, 1997
Loan closing	Dec 31, 1998	Dec 31 1998

**Annex A****Staff Inputs:** (staff weeks)

	<i>Planned</i>	<i>Actual</i>
Preparation to Appraisal		70.7
Appraisal		0.6
Negotiation		3.4
Supervision		12.5
Completion		6
<b>Total</b>		<b>93.2</b>

**Mission Data**

<i>Status of project cycle</i>	<i>Month/ Year</i>	<i>No. of persons</i>	<i>Days in field</i>	<i>Performance Rating<sup>2</sup></i>	
				<i>Implementation Status</i>	<i>Development Objectives</i>
Pre-identification	2/95	2	7		
Identification	8/95	4	12		
Preparation 1	2/96	5	14		
Preparation 2	5/96	12	19		
Pre-Appraisal	9/96	8	11		
Supervision	2/98	2	14	S	S

**Other Project Data**

Borrower/Executing Agency: Government of Mongolia

***FOLLOW-ON OPERATIONS***

<i>Operation</i>	<i>Loan no.</i>	<i>Amount (US\$ million)</i>	<i>Board date</i>
Banking, Enterprise, Legal TA	C2947	2	1 May 97
Financial Sector Adjustment	C3334	32	20 Apr 00

Indicator	1991	1992	1993	1994	1995	1996	1997	1998	Mongolia	Lao PDR	Belarus	Hungary	Kyrgyz Rep.
									Average 91-98	Average 91- 98	Average 91-98	Average 91-98	Average 91-98
<b>Size of the Economy</b>													
Agriculture, value added (% of GDP)	14	30	35	37	37	37	34	33	32	56	17	...	43
Agriculture, value added (annual % growth)	-15	10	-3	3	10	5	5	3	2	4	-5	-4	-1
Aid (% of GNP)	...	...	24	28	22	19	27	21	23	17	1	1	...
Current account balance (% of GDP)	...	...	6	7	4	-3	11	-7	3	-8	...	-4	...
Current revenue, excluding grants (% of GDP)	...	18	27	22	24	20	21	20	22	...	...	42	...
Domestic credit by banking sector (% of GDP)	69	44	19	20	10	16	9	13	25	11	...	...	...
Expenditure, total (% of GDP)	...	22	26	22	23	21	23	23	23	...	...	50	...
Exports of goods and services (% of GDP)	62	33	78	58	55	45	68	50	56	19	57	36	34
Foreign direct investment, net inflows in reporting country (DRS, %)	...	...	5	4	4	6	10	7	6	...	...	22	...
GDP at market prices (current US\$ Million)	...	...	561	686	957	1070	961	1042	879	1456	24339	41769	2651
GNP at market prices (current US\$ Million)	...	...	522	660	944	1055	908	989	846	1447	24236	40300	2609
GNP growth (annual %)	-3	-8	-7	3	7	3	4	4	0	6	-2	0	-6
GNP per capita growth (annual %)	-5	-10	-9	1	4	1	2	2	-2	3	-2	0	-6
GNP per capita, Atlas method (current US\$)	...	...	...	...	300	370	400	380	363	324	2484	3859	574
Gross domestic investment (% of GDP)	36	29	28	25	26	25	26	26	28	...	30	24	17
Gross domestic savings (% of GDP)	13	25	23	19	28	23	23	20	22	...	24	21	6
Gross domestic savings (current US\$ Million)	...	...	127	132	272	248	225	208	202	...	6099	8916	160
Gross internat. reserves in months of imports	...	1	2	3	3	3	4	2	3	2	...	5	...
Imports of goods and services (% of GDP)	85	37	83	63	53	47	70	55	62	31	63	39	45
Inflation, consumer prices (annual %)	...	...	268	88	57	49	37	9	85	23	...	23	...
International tourism, receipts (% of total exports)	1	1	1	2	4	2	2	6	2	7	...	10	...
Money and quasi money growth (annual %)	...	32	228	80	33	17	42	-2	61	48	...	...	...
Overall budget deficit, including grants (% of GDP)	...	-6	-17	-9	-7	-8	-9	-11	-10	...	...	-4	...
PPG, IBRD loans and IDA credits (DOD, current US\$ Milion)	0	27	30	49	59	68	97	118	56	271	...	1772	...
Resource balance (% of GDP)	-23	-4	-5	-6	2	-2	-3	-6	-6	-12	-6	-3	-11
Services, etc., value added (% of GDP)	52	36	32	30	28	39	39	40	37	24	40	...	30
Services, etc., value added (annual % growth)	-4	-8	4	2	-1	5	3	4	1	6	-2	0	...
Tax revenue (% of GDP)	...	16	26	18	19	16	17	13	18	...	...	36	...
Total debt service (% of exports of goods and services)	...	17	6	10	10	11	11	6	10	6	...	37	...
Trade (% of GDP)	147	70	161	121	108	92	138	105	118	50	120	75	79
<b>Education</b>													
Illiteracy rate, adult female (% of females 15+)	58	56	55	54	53	51	50	49	53	75	1	1	...
Illiteracy rate, adult male (% of males 15+)	34	33	32	31	30	30	29	28	31	42	0	1	...
Illiteracy rate, adult total (% of people 15+)	46	45	44	43	42	41	40	39	42	58	1	1	...
Public spending on education, total (% of GNP)	11	7	6	6	6	6	6	...	7	...	...	...	...
School enrollment, secondary (% gross)	74	64	63	59	59	56	...	...	62	...	...	...	...
<b>Health</b>													
Fertility rate, total (births per woman)	...	4	...	...	...	...	3	3	3	...	1	2	3
Health expenditure, public (% of GDP)	6	4	4	4	4	...	...	...	5	...	5	...	3
Immunization measles (% of children under 12 months)	82	88	84	80	85	88	98	...	86	...	...	...	...
Life expectancy at birth, female (years)	...	65	...	...	...	...	67	68	67	...	75	74	71
Life expectancy at birth, male (years)	...	62	...	...	...	...	64	65	64	...	64	65	63
Life expectancy at birth, total (years)	...	64	...	...	...	...	66	66	65	...	69	70	67
Malnutrition prevalence (% children under 5)	...	12	...	...	...	...	9	...	10	...	...	...	...
Mortality rate, infant (per 1,000 live births)	...	59	...	...	...	...	52	50	54	...	12	12	29
<b>Population and Labor Force</b>													
Labor force, total (Million)	1	1	1	1	1	1	1	1	1	...	5	5	2
Land area (sq km Million)	2	2	2	2	2	2	2	...	2	...	...	...	...
Population density (people per sq km)	1	1	2	2	2	2	2	2	2	20	...	111	...
Population growth (annual %)	2	2	2	2	2	2	2	2	2	3	0	0	1
Population, total (Million)	2	2	2	2	2	2	3	3	2	5	10	10	5
Urban population (% of total)	59	59	60	60	61	61	62	62	61	20	69	63	35

Source: World Bank SIMA database as of October, 2000

**Annex Table 2: Annual Change in Gross Domestic Product, 1995-1999**

	1996	1997	1998	1999	Ave 1995-1999
<b>GDP</b>	<b>2.4</b>	<b>4</b>	<b>3.5</b>	<b>3</b>	<b>3.2</b>
<i>Agriculture, hunting &amp; forestry</i>	4.4	4.3	6.4	3	4.5
<i>Mining &amp; quarrying</i>	6.1	5.6	4.9	3.2	5.0
<i>Manufacturing</i>	-13.8	-15	3.2	0.2	-6.4
<i>Electricity, gas &amp; water supply</i>	0.7	0.4	3.2	3	1.8
<i>Construction</i>	2.6	-2.7	-1.1	-0.5	-0.4
<i>Wholesale &amp; retail trade; repair of motor veh.,motocycl. &amp; personal &amp; HH goods</i>	0.3	17.1	-3.1	2.6	4.2
<i>Hotels &amp; restaurants</i>	6.8	0.2	0.5	4.4	3.0
<i>Transport, storage &amp; communication</i>	11.2	5.8	7.4	6	7.6
<i>Financial intermediation</i>	42.2	-26.7	-33	2	-3.9
<i>Real estate, renting &amp; business activities</i>	4.2	-2.4	8.4	5.5	3.9
<i>Public administration &amp; defence; compulsory social security</i>	3.5	2.2	1.9	2.5	2.5
<i>Education</i>	4	4.1	6.8	3.6	4.6
<i>Health &amp; social work</i>	4.4	3	1.4	3.5	3.1
<i>Other community, social &amp; personal service activities</i>	0.8	6.2	5.3	-6.5	1.5

## **Annex C: List of People Interviewed - Evaluation Mission, Sept, 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)

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)

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

### **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

#### **Official Donors**

Edward W. Birgells, Mission Director, USAID Mongolia

Saraswathi Menon, Resident Representative, UNDP

Natsuki Hiratsuka, Deputy Resident Representative, UNDP

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

Shannon W. Atkeson, Resident Representative, IFC

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

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