

**Mongolia: Joint Staff Advisory Note of the
Poverty Reduction Strategy Paper Progress Report**

The attached Joint Staff Advisory Note (JSAN) of the Poverty Reduction Strategy Paper Progress Report for **Mongolia**, prepared jointly by the staffs of the World Bank and IMF, was distributed with the member country's Poverty Reduction Strategy Paper (PRSP) to the Executive Boards of the two institutions. The objective of the JSAN is to provide focused, frank, and constructive feedback to the country on progress in implementing its Poverty Reduction Strategy (PRS).

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INTERNATIONAL MONETARY FUND AND
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MONGOLIA

**Poverty Reduction Strategy Paper Progress Report
Joint Staff Advisory Note**

Prepared by the Staffs of the International Development Association and
the International Monetary Fund

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I. INTRODUCTION

- 1. The government of Mongolia prepared the first Progress Report of the Economic Growth Support and Poverty Reduction Strategy (EGSPRS)**, which was discussed by the Cabinet in May 2005 and sent to Parliament for hearing in June. The Progress Report assesses progress on the implementation of the EGSPRS that was presented to the Executive Boards of the International Development Association (IDA) and the International Monetary Fund (IMF) in September 2003. It has taken the government about two years to prepare this Progress Report because of the change in government as a result of the 2004 elections, the subsequent policy reorientation that followed from the implementation of some election promises by the incoming “Grand Coalition” government (including a child transfer program targeted to poor households), and a reaffirmation by the new government of its commitment to the EGSPRS framework that was agreed upon earlier.
- 2. The process that underpinned the preparation of the EGSPRS Progress Report included consultation and participation by relevant stakeholders.** It was conducted in the context of the newly adopted EGSPRS monitoring and evaluation institutional framework, described in government Resolution No. 96 (2004). This institutional structure engages different stakeholders to demand and use the information collected and to refine the strategy in light of this information. It consists of two components: (a) data collection and analysis; and (b) strategic management. The former is undertaken by the Poverty Research Group, in the Ministry of Finance, the National Statistical Office (NSO), Monitoring and Evaluation (M&E) Divisions of the respective line ministries, NGOs, donors and other data producers and users. The latter component is undertaken by the EGSPRS Policy committee (involving the Ministry of Finance, line ministries, and local governments), and five sub-committees (involving line ministries, local governments, donors, NGOs and other groups). Each of these committees actively contributed to the preparation and commenting process of the EGSPRS Progress Report.
- 3. As it is now, the EGSPRS process is isolated from the other government strategic processes and is not used as an effective instrument to feed into policy design and budgeting.** The ongoing initiative of the government to improve the consistency of the Socioeconomic Guidelines and the State Budget documents, as well as the adoption of an M&E framework is welcome. However, there remains a need to strengthen the EGSPRS process further in order to improve its effectiveness as a strategic process for policy planning, implementation and M&E. To this end, the staffs encourage the government to elaborate on the key linkages between its different strategic documents and corresponding reporting mechanisms. Ideally, the EGSPRS would set up the economic growth and poverty reduction priorities, while the Medium-Term-Budget Framework (MTBF) along with the public investment program (PIP) would translate the strategic planning decisions into a costed multi-year policy program with identified financing. The MTBF would be placed at the core of the system, linking the planning and budgeting functions, while ensuring the full involvement and contribution of the line ministries in the process. A single unified M&E reporting system would evaluate implementation progress, while avoiding the current duplication of reporting documents and overburdening the key officials in government.

II. PERFORMANCE EVALUATION

4. **The adoption of an institutional structure that engages different stakeholders in monitoring and evaluating the EGSPRS implementation is a commendable step in the direction of effectively monitoring the outcome of the strategy.** The EGSPRS Progress Report could take advantage of this new framework, by including a quantitative evaluation of the performance looking at outturns relative to benchmarks defined in the EGSPRS, accompanied by a qualitative analysis. In the next progress report, staffs recommend that a monitoring and evaluation table be included, covering the priority areas for policy interventions as set in the EGSPRS and looking at the implementation of policies, government systems and institutions, and results.

5. **Within the new framework, the availability of data to monitor policy implementation has improved, yet there is still a disparity between the supply and demand of statistics.** While line ministries' administrative data for the annual socio-economic guidelines are useful, they are incomplete or inadequate to monitor policy implementation and to assess outcomes in the social sector. Either the NSO or the line ministries' data departments need to increase staff capacity to produce outcome statistics (e.g., mortality rates by income quintiles or by regions) beyond simple averages. Alternatively, the EGSPRS staffing capacity has to be enhanced to analyze such information.

A. Poverty Diagnosis and Monitoring

6. **Since the adoption of the EGSPRS, the government has made significant progress in laying the groundwork for poverty monitoring,** including the adoption of the Statistics Law that aims at improving public access to data. After a lengthy gestation period, the first nationally representative household survey, the Living Standards Measurement Survey (LSMS) 2002-03 was completed in late 2004, in parallel to the Household Income and Expenditure Survey (HIES) conducted annually by the National Statistical Office (NSO). Based on the HIES-LSMS 2002-03 data, NSO disseminated the official baseline poverty estimates in December 2004. It is on the basis of this 2002-03 data that the Progress Report was prepared by the government. In this regard, one should note that Mongolia has experienced a period of significant GDP growth since then that may have had an important impact on the level and structure of poverty in Mongolia. Staffs strongly recommend NSO to undertake without delay the next HIES-LSMS to provide the recent poverty trends, which will inform policy decisions, especially in the area of social protection for the poor and vulnerable households.

7. **While the staffs commend the government's efforts and progress to date there is still room to improve in terms of timeliness, quality, and accessibility of survey data.** In terms of timeliness, staffs urge NSO to seriously consider harmonizing the HIES and LSMS by combining a core set of questions from the LSMS with the HIES. This can be done at no additional cost, by making the diary recording of household expenditure a one month exercise instead of three months. In terms of quality, the design of the HIES-LSMS 2002-03 was a substantial improvement, taking into account the limitations of the 1995 and 1998

LSMS. It is advisable that the design of future household surveys replicates that of the HIES-LSMS 2002-03 to ensure comparable poverty estimates over time. Finally, in terms of accessibility, all NSO data, including the HIES-LSMS 2002-03, remain inaccessible to the public. The staffs urge the government to take steps to address this concern. By making available all survey data to the public, the government will promote in-depth analyses and constructive debates of important policy issues.

8. **Vulnerability of herder households to livestock mortality shocks remains high, which contributes directly to declines in household consumption.** The EGSPRS report highlights the rapid increase in national livestock numbers, which are approaching levels last seen in 2000 prior to the devastating losses experienced by herders due to successive *dzuds* from 2000 to 2002. The effects of high levels of livestock mortality have a major impact on rural poverty, and it is clear that strengthened measures are required to reduce physical losses due to *dzud* and mitigate the socio-economic impact of livestock mortality. The staffs welcome the government's efforts to set up a market-based livestock insurance scheme, with the World Bank support. However, insurance is only one part of the solution to household vulnerability to livestock mortality shocks, and greater efforts are required to promote broader risk management approaches, including early warning systems, improved pasture management and effective disaster response systems.

B. Macroeconomic performance

9. **Recent economic developments have been broadly favorable.** Real GDP growth exceeded 10.5 percent in 2004 and is expected to remain robust, at about 5.5 percent in 2005, with a recovery in livestock production and strong activity in the mining sector serving as the main drivers of growth. Fiscal performance has strengthened markedly, with the overall deficit narrowing to about two percent of GDP in 2004—the lowest level since the start of the transition in the early 1990s—aided by strong minerals export prices and improvements in expenditure control. However, after being tamed earlier in the decade, inflation has recently accelerated. Although initially spurred by supply-side factors (large price increases for petroleum products and meat), the rise of inflation has been accommodated by a relatively loose monetary policy.

10. **The government views the achievement of strong, sustainable economic growth as the cornerstone of its poverty reduction strategy.** In turn, the authorities recognize that the maintenance of macroeconomic stability and the successful implementation of reforms to strengthen governance, enhance the efficiency of the public sector, and improve the flexibility of markets are indispensable preconditions for the achievement of such sustained growth. This pro-growth strategy is being backstopped by policies to protect the most vulnerable segments of society. With such policies in place, the government considers that it should be possible to achieve growth rates of at least five to six percent over the medium term, while generating sustained growth in private sector employment, reductions in unemployment, and a reduction in poverty.

11. **Consistent with these objectives, the government's EGSPRS Progress Report emphasizes that macroeconomic policies have been, and will remain, geared toward financial stability and further structural reform.** In particular, monetary policy will focus on containing inflation to approximately five percent. The Progress Report notes that efforts will continue to be devoted to the strengthening of the financial system, including programs to expand the provision of financial services in rural areas, and work is underway to develop a deposit insurance system. As regards fiscal policy, the PRSP originally envisaged that the overall budget deficit would be in the range of 4.5-5.5 percent of GDP in 2004-06. Given the more favorable external environment, strong revenue performance, and general buoyancy of demand that has prevailed since the PRSP was issued, the overall budget deficit narrowed to 2.2 percent of GDP in 2004, and it could decline to below 2 percent of GDP in 2005, provided expenditure remains strictly within budgeted levels and the revenue windfall is saved, as the staffs have recommended. For 2006 onward, a deficit on the order of 3-3/4 percent would be consistent with the maintenance of strong growth and reductions in debt-related vulnerabilities to adverse shocks. Some realignment of the structure of the budget is proposed by the government in the Progress Report, which notes that total government expenditure will decline in relation to GDP as general administration wage bill and other costs are reduced through improved efficiency. Technical assistance by the IMF has identified that the efficiency gain could be achieved in health and educational sectors through, *inter alia*, (i) increasing the weekly norm for teaching hours; (ii) consolidating public tertiary education institutions; (iii) reducing public spending on health services of a purely private nature; and (iv) means testing the provision of free public health insurance.

12. **The World Bank and IMF staffs support the macroeconomic objectives and policy strategy outlined in the EGSPRS but consider that additional steps may be needed to ensure their full achievement and implementation.** In this regard, a detailed discussion of future macroeconomic policies, projections, and risks would have been welcome in the EGSPRS Progress Report. In particular, against the background of rising inflationary pressures, it will be necessary for the Bank of Mongolia to tighten monetary policy through the use of the indirect instruments at its disposal, including the issuance of its central bank bills. The central bank should continue to eschew the use of quantitative credit controls, except when required as an instrument of prudential supervision, consistent with banking laws. Also, in the medium term, while government debt service will not exceed 10 percent of GDP, the overall reliance of the economy on external debt financing should be reduced somewhat and foreign direct investment encouraged instead. The joint IMF/World Bank Debt Sustainability Analysis suggests that any relaxation of the authorities' prudent approach to contracting external debt could have serious consequences for debt sustainability. In particular, large scale external borrowing on non-concessional terms would further worsen the situation. Calls on the government to take on contingent liabilities, such as central bank guarantees on private sector borrowing, would also pose additional risks.

III. SELECTED KEY ISSUES

A. Governance–Accountability, Transparency, and Effectiveness

13. **According to the Progress Report, the government will focus its governance-improving measures on ways to enhance the effectiveness of the civil service, deepen legal reforms, and promote private sector development.** However, the Progress Report does not present any specific short-to-medium term measures to operationalize these intentions. The staffs encourage the authorities to articulate more explicitly how they plan to translate the high level policy decisions that have been made into specific measures that would seek to address key governance issues including: perception of a growing corruption; government transparency and accountability; and financial and real sector soundness.

14. **One of the key policy objectives of the government, as stated in the Progress Report, is generating economic growth and reducing poverty.** In this regard, a key challenge will be to maintain high levels of economic growth and ensure equitable development opportunities for all citizens. To achieve these twin objectives, the government will need to address the growing perception by its citizens and other observers that corruption is on the increase in Mongolia.¹ The World Bank Institute's global governance indicators, a composite of cross-country surveys, recorded declines for all six indicators measured in Mongolia during the period from 2000 to 2004, with especially sharp drops in government effectiveness and control of corruption. Public opinion surveys conducted since 1995 indicate increasing public concern over corruption. Positive steps have been taken, such as the implementation of the Administrative Court System on a pilot basis in Ulaanbaatar and Darkhan with good results. Surveys show that the public views these courts as a fast and effective mean to obtain redress from government and combat corruption. Laws for improving accountability, transparency and effectiveness of government have been prepared. They are (i) the draft Anti-Corruption Law, (ii) the revision of the Procurement Law, and (iii) the Law on Use of Contingency Funds. Yet, these laws await enactment by Parliament.

15. **Although the GOM has taken a number of positive steps in recent months to address growing concerns over governance, sustained action will be needed to consolidate progress and to address weaknesses in internal and external government transparency and accountability systems.**

- i. The government has endeavored to enhance transparency in financial management with the implementation of an integrated Government Financial Management Information System (GFMIS). This is an important step in improving public finance management in Mongolia. While the EGSPRS Progress Report recognizes this as an important development, effective

¹ Preliminary analysis of the survey data compiled in the context of the on-going Investment Climate Assessment (ICA) by the World Bank shows that poor governance is a growing source of concern among firms in Mongolia.

systems need to be introduced for consolidating into the full budget process the budget of those administrative entities that generate their own revenues and function outside government accountability mechanisms.

- ii. The Civil Service Reform Strategy was approved by the Parliament in 2004 and implementation is ongoing. The main thrust of the strategy is to ‘right size’ the civil service by increasing pay for a smaller, more efficient civil service, and improving the skill mix by increasing technical staff. Successful implementation will require close coordination between the Civil Service Council, the Ministry of Social Welfare and Labor, and the Ministry of Finance as well as significant political will. Although this is an important step, the Progress Report is silent on this strategy as well as action plans. It is advisable for the government to develop an implementation plan for the Civil Service Reform Strategy and to report on progress on this issue in subsequent EGSPRS progress reports.
- iii. Progress has been mixed toward EGSPRS goals to improve civil society participation in Parliament and government decision-making, implementation, and monitoring. As a step toward more disclosure, starting from 2005 the government has published aggregate budget information on the internet. Yet a key constraint, noted in recent World Bank studies, is that citizen access to government information, including through the process of preparing EGSPRS and the Progress Report, remains limited. There are no formal mechanisms for enabling citizen consultation and participation in law-making (such as public hearings on draft laws), although NGOs have been invited to participate in legislative working groups on an ad hoc basis. The staffs advise the government to make available to the public all of the budget documents that the OECD Best Practices on Budget Transparency recommends as essential to fostering government financial accountability. These include: a pre-budget statement, the executive’s budget proposal, the budget, a mid-year review, a year-end report, and an auditor’s report or attestation.

16. **The achievement of strong, sustainable growth is critically dependent on the existence of a sound financial system whose institutions—the central bank, commercial banks, and nonbank financial institutions (NBFIs)—earn the public’s confidence. Further actions are needed in this regard.** The staffs recommend that priority be given to enhancing the legal framework, oversight, and structure of the Bank of Mongolia while ensuring that it has an adequate capital base for its operations, including both monetary policy and improved supervision of commercial banks. Significant governance improvements are needed at the Bank of Mongolia, including development of a stronger basic framework to ensure central bank autonomy and accountability. Although the recent establishment of the Supervisory Board was an important step in the right direction, the Board’s statutory role in reporting to Parliament is comparatively passive, and its resources are very limited. Another area of concern is the central bank’s strategy for managing its international reserves, which makes use of some relatively risky investment techniques that could generate significant

capital losses under adverse conditions. The quality of banking supervision, while improving, still entails a certain degree of forbearance, and important breaches of banking supervision laws and regulations have occurred without prompt corrective action by the BOM. Action is also needed to strengthen the supervision of the growing sector of NBFIs. Whatever institutional form this takes, however, it should not be allowed to shift resources away from supervision of the banking system.

17. **Although private sector activity has remained brisk, particularly in the retail, catering, construction and small-scale processing industries, Mongolia's medium-term growth prospects are influenced by important remaining structural rigidities.** However, there is a lack of specificity in the EGSPRS regarding concrete policy actions that the authorities intend to implement to alleviate these constraints. Vigilance will be needed to resist calls for increased trade and industrial protection, such as the recent proposals for a new export tariffs on metal products and raw cashmere. This, in turn, has proved a drag on more robust private sector development. Although the lowering of the top tax rates on corporate and personal income in January 2004 has resulted in a reduction in the tax burden on firms and individuals, tax reform efforts need to go beyond changes to the tax code to restructuring the operations of the key agencies—the tax department, the customs administration, and the inspection agency—that directly interact with private firms and individuals. Further effort also needs to be directed toward addressing the problems of corruption, red tape, distortions in the tax regime, weak tax administration, and regulatory burden, which continue to be major impediments on the operation and growth of Mongolian businesses.

18. **The Progress Report rightly emphasizes the importance of the mining sector for potentially contributing, through fiscal channels, to the financing of EGSPRS priorities, but remains silent on government policies in this sector.** The mining sector has potential to contribute significantly toward economic development in Mongolia by generating employment and revenues. But for this to be realized, the mining sector policy needs to provide adequate incentives for mining activities to take place, employment to pick up, and collect revenues to finance needed expenditures. Furthermore, transparency in the extractive industry is necessary to minimize the potential for rent-seeking. In this regard, the staffs welcome the government's willingness to consider participating in the *Extractive Industries Transparency Initiative* (EITI). In addition, the staffs recommend that the government consider developing an integrated framework for sharing the benefits accruing from the mining sector through a trilateral dialogue between the government, civil society, and the mining sector.

B. Social Service Delivery

19. **In the education sector, the Progress Report shows that there has been an overall improvement in access to education, but rural-urban disparities now need to be addressed through differentiated policies.** The system was successfully expanded to serve 7 year olds this school year. According to a recent World Bank policy note on education, enrollment rates in rural areas have increased by 10 percentage points between 1998

and 2002. However, children in the countryside fare significantly worse in terms of school access, completion and performance than children living in soum (district) centers, aimag (province) centers or UB. Meanwhile, urban areas face challenges associated with double and triple shifting to meet the growing demand for schooling. The current policy and funding mechanism do not differentiate much to meet the needs of schools serving students in the rural and poor areas.

20. **In the health sector, even though the EGSPRS Progress Report captures the main issues related to the status of the health sector, it would benefit from a more extensive analysis of the required steps for health reform.** The report underlines that little progress has been made in improving family planning and addressing the transmission of sexually transmitted infections. On the other hand, infant and maternal mortality rates have fallen over the last few years. However, some of the most pressing needs of the health sector remain to be addressed: i) The number of hospitals and hospital beds, especially in the capital, seems disproportionately too high relative to the demand; ii) The current allocation is biased toward the hospital sector and not enough funding is devoted to public health and primary care; iii) Family Group Practices, hospitals and private providers should be organized in a coordinated framework, trying to correct for the current tendency to by-pass the existing primary care facilities, shifting some of the burden of primary care away from the hospitals; iv) the availability, quality and accessibility of pharmaceuticals should be addressed in more detail.

21. **Staffs welcome the Social Security Master Plan, aimed at rationalizing social assistance and improving targeting and encourage the government to implement the plan.** Indeed, there is a need to revise the current social assistance program. Many programs need to improve their targeting, as some groups appear to receive a multiplicity of benefits while other needier groups are left out (e.g. herders). In addition, according to LSMS survey data analyzed in the context of the ongoing World Bank Poverty Assessment, a large share of the government's social assistance in Mongolia has leaked to non-poor households while many poor households are excluded. In addition, problems remain in i) weak preparation of new programs; ii) lack of a monitoring and evaluation to learn about the effectiveness of these programs in reaching their objectives; and iii) limited implementation capacity.

22. **The new Child Money program, which is not part of the Master Plan, is well designed but requires more careful implementation.** It represents an important departure from the existing social assistance programs as it conditions benefits to household behaviors (e.g. sending the children to school) and as it targets the poor households by using a proxy-means test. Although the methodology needs some refinements to be effective as a screening device, the staffs welcome the adoption of the targeting principle for social assistance program as suggested in the Progress Report and recommend that other existing programs use this principle as well. As for implementation, there are important concerns regarding the requirement to have an ID card which is a bias against the poorest to access the program and regarding political interventions in the selection of beneficiaries. Access to identification should be facilitated for the poorest and only the objective criteria-based methodology should be used to select beneficiaries.

C. Regional Development and Infrastructure

23. The design and pace of regional development within Mongolia will have significant implications for the nature of implementation and outcomes of the EGSPRS.

A strategy for regional development and an associated legal framework was outlined by the government in 2003. Since then, the government has turned to the implementation of the strategy, which includes the creation of the regional development national committee, the nomination of the heads of regional councils and the design of development strategies for each region and pillar center. In addition, studies for the design of a new administrative structure have been initiated. While the staffs recognize the government's desire to give all the people in the country equal opportunities by supporting a balanced regional development, as the implementation of the strategy proceeds, the staffs recommend that the government focus on reforms that improve the overall investment climate and public investments that favor multipurpose non-sector specific projects, including in infrastructure and human capital development. In addition, more attention should be paid to the infrastructure needs of the new aimag centers based on an assessment of the forecasted demand.

24. Progress has been made in the last two years toward increasing the availability of infrastructure, yet this is not reflected in the monitoring indicators of the EGSPRS Progress Report.

Evidence for this progress should be available from the LSMS and HIES and could be compared with results from surveys in comparable countries. These surveys would also indicate the cost of infrastructure services (transport, electricity, water and communications) in household budgets. The staffs strongly recommend that the next implementation report include adequate M&E indicators for the infrastructure sector. The government is working on the preparation of an Infrastructure Strategy. This is expected to address most of the economic growth and poverty reduction issues related to infrastructure and should highlight the need to ensure the affordable provision of infrastructure services to the entire population using fiscally sustainable channels. As an input to this Strategy, an update of the Transport Strategy is being prepared with financial support from the Asian Development Bank and in collaboration with other development agencies (this update was a recommendation of the World Bank and IMF Joint Staff Assessment (JSA) on the EGSPRS). In addition to the Infrastructure Strategy, the ongoing Trade Competitiveness Study by the World Bank will provide a review of how best to increase the efficiency of logistics. The staffs strongly support these studies, considering their implementation to be an important indicator of the government's recognition of the role of infrastructure in economic growth and poverty reduction.

25. The staffs urge the government to pay attention to the financial conditions of the infrastructure sector, and to address the lack of comprehensiveness and transparency that currently exists in the public investment budget.

The EGSPRS Progress Report has not progressed toward prioritizing/costing of public investment program as recommended by the JSA. The staffs recommend in particular that the government evaluate the need for maintenance of the roads, power generation and water supply and for new investment in

energy. The Public Investment Program (PIP) remains fragmented, and does not benefit from rigorous procedures and economic criteria for selection of projects in the PIP and, in turn, their incorporation in the government's budget.

26. **Looking at the government's rural development goals as outlined in the EGSPRS, the main challenge of implementation of its Rural Development Strategy relates to finding the most cost effective means of facilitating the development of the private sector to achieve strategic objectives.** In this regard, greater attention to institutional strengthening is necessary especially within the Ministry of Food and Agriculture (MoFA), which requires capacity to better monitor and assess the outcomes of current interventions and prepare future policies and investments. In parallel, the role of the local government and communities needs to be further enhanced. Looking forward, specific areas for focus include: (i) developing an institutional framework for pastoral risk management at central and local levels; (ii) creating conditions for market-led intensification and integration of livestock and crop farming; and (iii) strengthening measures to support cooperation among local producers.

27. **Meanwhile, there has been progress in implementing the environment strategy articulated in the EGSPRS, particularly in water resources and urban environmental management, and in mainstreaming environment and natural resources management into the government poverty reduction programs.** More attention should be paid to institutional development and forest resources management. Institutional capacity should be improved for the government to manage its responsibilities at the national and local levels, and in particular with regard to the newly established Water Resources Authority, which is tasked with the implementation of the new Law on Water. Illegal timber production and increased fuel wood use, especially by the rural poor, are unsustainable practices and an important concern. Yet attention and resources continue to be devoted to tree planting and forest pest control programs despite little evidence of their success. The staffs recommend that the implementation strategy consider developing and implementing economic and tenurial incentives, provisions for sustainable harvesting, especially in community-based schemes, and planting of non-timber forest products in the planned forest management programs. To improve and sustain the progress achieved in addressing environmental issues under the EGSPRS, the staffs recommend that the government focus on: (i) strengthening its institutional and legal capacity at the national and local levels; (ii) developing sustainable forestry management policies; and (iii) broadening the understanding of the environmental implications of the developing and assessment of environmental and natural resources management impacts resulting from the implementation of the Regional Development Plan.

IV. CONCLUSION

28. **In sum, the implementation of the EGSPRS over the past two years has involved some important steps,** including updating national poverty statistics and poverty profile based on the 2002 HIES; the adoption of an updated monitoring and evaluation system in government with refined indicators and targets, along with a better articulation of the institutional arrangements for monitoring implementation progress.

29. **Looking forward, there are four challenges:**²

- i. Better alignment and clearer linkages are needed between the strategy, planning, and budgeting processes (i.e., between the EGSPRS, the medium-term budget framework, and the PIP). Using the MTBF as the core instrument linking the planning, budgeting and reporting processes would help strengthen policy design and implementation. The EGSPRS process needs to be integrated into the other government strategic processes.
- ii. The need to develop an action plan for private sector development and a thorough review of the PIP that includes a prioritization and costing of proposed projects, especially for infrastructure.
- iii. The need to improve governance beyond anti-corruption measures and include civil service reform, pension reform, and greater transparency in public sector decision-making.
- iv. The need to ensure timely availability of data to the public on monitorable outcome-based indicators to track progress in implementation of the government's poverty reduction strategy.

² As stated in the government's resolution No. 96 on the EGSPRS institutional framework, an update of the current EGSPRS will be prepared by the government in 2006 for the period covering 2007 to 2009.