

INTERNATIONAL MONETARY FUND AND  
THE INTERNATIONAL DEVELOPMENT ASSOCIATION

MONGOLIA

**Assessment of the Interim Poverty Reduction Strategy Paper**

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

Approved by R. Anthony Elson and Shigeo Kashiwagi (IMF) and  
Zafer Ecevit and John Page (IDA)

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1. Over the last eight months, the government of Mongolia has developed an Interim Poverty Reduction Strategy Paper (I-PRSP) that takes stock of current policies and challenges facing the government and outlines the main strategy to reduce poverty. The paper presents the participatory process used in preparing the I-PRSP and outlines the future plan for a broader consultation process under the full PRSP. The paper meets the requirements for an I-PRSP and provides a sound basis for developing a fully participatory PRSP, and an adequate framework for continued Fund and Bank assistance to Mongolia.
2. This I-PRSP has four main strengths: (i) a good analysis of government policies designed to ensure macroeconomic stability and the impact of these policies on the government's poverty reduction objectives; (ii) a solid assessment of the existing poverty data and diagnostics and a good indication of knowledge and data gaps; (iii) early involvement of civil society and other major stakeholders in the preparatory process; and (iv) a satisfactory agenda for stakeholder analysis. Perhaps most notable of the strengths of the I-PRSP is the process in which it was developed; full country ownership of the document was established very early on and the poverty strategy developed is based on extensive inter-ministerial consultations.
3. The agenda of analytical work for the development and effective implementation of a full PRSP, however, remains challenging for several reasons. First, the mix between growth-promoting reforms that generate opportunities for the poor and income-support or transfers that are designed to provide safety nets will need to be carefully rebalanced. Given the concerns about the sustainability of Mongolia's fiscal position, much greater emphasis will need to be placed on reforms to institute the competitive and efficient market structures that are necessary to encourage private sector-led investment and growth. Second, the full PRSP will need to better articulate how the private sector is envisioned to become the main engine for reducing poverty, including the envisaged contributions of foreign and domestic investment and the role of public policies in providing an enabling environment for a more productive use of private capital. Third, the full PRSP will need to identify, cost and

prioritise the main public policies and programs that must be put in place to make a dent in poverty in the medium term and to place them in the context of a Medium Term Expenditure Framework (MTEF). This will allow for a systematic discussion of trade offs in the context of overall resource constraints. Fourth, the full PRSP will need to identify indicators to monitor progress and to establish realistic targets for poverty reduction. These are complex undertakings that will severely test the government's limited capacity both in analysis and implementation and will require substantial technical support from donors.

4. More specifically, the staffs recommend that the full PRSP:

- identify the sources of economic growth and the reform measures that are to encourage domestic and foreign investment without impinging on the budget, with particular reference to the reforms aimed at increasing the productivity of new investment;
- identify within the context of the macro framework a set of priority public policies and programs that will have the greatest impact on poverty reduction while continuing to support Mongolia's transition to a market economy;
- fully cost proposed programs, including donor-financed investments, and ensure that they are consistent with the agreed macroeconomic framework discussed with the Bank-Fund teams;
- discuss the poverty and social impact of key structural measures, including trade policy, energy sector and civil service reforms and further privatisation of state-owned companies; and identify appropriate social safety nets to ease the impact of these measures on vulnerable groups and enhance risk management, especially in connection with terms of trade shocks and natural disasters;
- use the results of the 2002 Household Income and Expenditure Survey (HIES) to construct a reliable baseline for monitoring trends in poverty, inform resource allocation decisions, and evaluate the impact of government programs;
- identify milestone outcome indicators to monitor yearly progress consistent with internationally accepted development indicators; and
- broaden the participatory process for the full PRSP to ensure an early involvement of Parliament and a more extensive representation of vulnerable members of society with no access to public institutions.

5. The I-PRSP relies extensively on the Government Action Plan and other government documents for its vision and has benefited from donor participation and Bank/Fund staff comments on earlier versions of the draft. In addition several donors participated in meetings of working groups preparing the I-PRSP.

## I. BACKGROUND

6. The current Government of Mongolia came to power in July 2000 with a strong mandate from the people, winning 72 out of 76 parliamentary seats. The Government's Action Plan, largely reflected in the I-PRSP, articulates the government's commitment to poverty reduction and growth. This commitment includes deepening the reform process and sequencing and prioritising development policies within the resource constraints of the government. Notwithstanding the progress made during the first decade of Mongolia's transition to a market economy, many challenges remain. Among them, maintaining prudent fiscal policies and strengthening human capital are perhaps the most important. The recently completed Consultative Group meetings in May 2001 recognized the authorities' capacity limitations in both identifying and implementing the needed policy measures. Donors pledged to support the government's efforts to build capacity and improve decision-making, provided that it remains strongly committed to accelerating the reform agenda.

## II. POVERTY DATA, ANALYSIS, AND MONITORING

7. The I-PRSP draws on a wide range of quantitative and qualitative information. In particular, the two Living Standard and Measurement surveys done in 1995 and 1998 (not comparable) and the annual Household Income and Expenditure Survey (HIES) conducted by the National Statistics Office (NSO) provide the basis for the quantitative analysis, while the recently completed Participatory Living Standards Assessment (PLSA) provides a qualitative diagnostic analysis of poverty. The results of the PLSA have enabled the government to draw on citizens' perceptions of poverty in Mongolia in all its multiple dimensions as they contemplate the full PRSP.

8. While the NSO has a long history of conducting household surveys, poverty analysis to inform policy decisions has been hampered by the lack of comparability of poverty data over time. Flaws in sampling design and use of multiple poverty lines severely limit the use of these data for policy analysis. The I-PRSP identifies this handicap and proposes that further work be done to reach agreement amongst stakeholders on methodological details for the upcoming HIES. The full PRSP would benefit from wider distribution of survey data to the research community and line ministries for analysis. More generally, the government is encouraged to provide open access to future household data to encourage further analytical work and a shared understanding of opportunities and constraints to poverty reduction.

9. Moving forward to the full PRSP, a Statistical Master Plan identifying the full menu of data requirements and a credible timeline for filling the gaps, including where additional donor support is required, will be important. A preliminary list of the data gaps in Mongolia is presented at the end of the I-PRSP, and using the General Data Dissemination System (GDDS) framework and in consultation with the government, the NSO could develop a comprehensive plan to fill the government's data needs. In the meantime, the staffs recommend that the government support the upcoming augmented HIES survey in Mongolia and establish this as the official baseline for poverty monitoring in the future. The upcoming HIES will benefit from the recently completed census to improve the sampling frame.

Capacity building in data collection and management, and overall strengthening of the NSO are underway. At the request of the government, the UNDP, the IMF, the ADB, and IDA are providing support to the NSO. Progress in this area should be reflected in the full PRSP. The staffs welcome the government's decision to set up a research unit to conduct poverty monitoring and analysis.

10. The I-PRSP also identifies other analytical and data gaps that need to be filled, especially regarding labor markets, the business environment, the implications of trade liberalization on income distribution and employment, and gender issues. To better inform the policy discussion in the full PRSP, the HIES could be complemented by special-purpose surveys such as the Public Expenditure Tracking Surveys (PETS) and other specific surveys of vulnerable populations (e.g., street children). Information in these areas is crucial to developing a consistent and sustainable policy targeting the most vulnerable groups in society.

11. The I-PRSP makes a commendable effort at identifying monitoring indicators especially in the social sectors. However, the government's commitment to reduce poverty by 50 percent by 2005 is overly ambitious. To enhance the credibility of its program, the government is encouraged to set more realistic targets along with credible monitoring indicators for the full PRSP. Beyond the indicators that are part of the Millennium Development Goals, it would be useful to identify some additional indicators related to progress towards rationalizing the energy sector and improving infrastructure because the existing weaknesses in these sectors are strongly linked with poverty. The staffs welcome the government's intention to establish transparent mechanisms and strengthen other institutional arrangements for monitoring and evaluation. A public expenditure tracking survey and other methods of civil society involvement in tracking the achievement of development goals are currently under discussion. The UNDP, the ADB and IDA could provide some support to the government to strengthen civil society participation in this endeavour.

### **III. POLICY AGENDA**

12. The government's overall poverty reducing strategy rests on three pillars outlined in the I-PRSP: (i) macroeconomic stability; (ii) private sector-led growth, including through the promotion of export-oriented industries; and (iii) a more equitable distribution of the benefits from economic growth through delivering improved services, especially to the poor, and maintaining a social safety net that ensures that the vulnerable remain protected from undue adverse side-effects of the transition to a market economy. The government recognizes that the success of this agenda requires a strong partnership between the state and the population and is committed to ensuring civil society participation in the development of a full PRSP. Staffs of the WB and IMF are broadly in agreement with policies outlined in the document and especially endorse the government's commitment to improve public sector management by increasing transparency and accountability and adopting prudent fiscal and monetary policies. The core macroeconomic and structural policies agreed under the prospective Poverty Reduction and Growth Facility (PRGF) arrangement and the Financial Sector

Adjustment Credit (FSAC) are consistent with the policies (i.e., public sector, financial and trade reforms) presented in the I-PRSP.

13. Moving to the full PRSP, however, will require improving the prioritisation and costing of the actions selected, and broadening the scope of policies in order to develop a comprehensive approach to growth and poverty reduction. Although the I-PRSP mentions the government's efforts to improve governance, including strengthening financial management and monitoring, weaknesses persist, which need to be more forcefully addressed in the full PRSP as part of the reform agenda.

14. The medium-term macroeconomic framework set out in the I-PRSP was developed in close consultation with the IMF and illustrates the government's commitment to creating a stable macroeconomic environment underpinned by continued fiscal consolidation, prudent monetary policy using indirect policy instruments, and a market-oriented exchange rate policy. The government aims to gradually raise the annual GDP growth rate to six percent to bring about a meaningful reduction in poverty, while reducing inflation to the low single digit range and containing the external current account deficit to protect the external position. A stable macroeconomic environment, together with broad-based structural reforms as set out in the I-PRSP, will be key in supporting more rapid private sector-led growth and poverty reduction.

15. The macroeconomic framework is, however, based on only preliminary estimates of several important elements of the program, including the costs of civil service reform and potential privatisation receipts. These will have to be refined in the context of the World Bank's ongoing Public Expenditure Review and as the analysis and costing of various public sector programs advance, and reflected in the full PRSP. The full PRSP could also have a more detailed discussion of the sources of growth, together with supporting measures, to achieve the medium-term objective of realising six percent annual growth rates.

16. The I-PRSP appropriately places importance on maintaining sound monetary and credit policy, and deepening banking system reforms. Recent years have seen several banking crises generated by imprudent bank lending to the private sector, particularly by some state-owned banks. The I-PRSP clearly attributes past macroeconomic instability in Mongolia to problems of weak governance in the financial sector (in particular, the state-owned banks). In addition, it reiterates the importance of not only avoiding a drain on public resources, but also developing a financial intermediation system that truly supports the efficient flow of savings and investment, including in the rural areas. The full PRSP could include a discussion of the government's current strategy to remove credit market imperfections and ensure that commercial criteria are used to allocate bank credit, consistent with the government's objective to increase both the level and productivity of private investment.

17. The staffs welcome the government's plans in the I-PRSP to speed up the privatisation of state-owned banks and to strengthen the legal and regulatory environment in the banking system. Consistent with the objectives of the FSAC, the Bank of Mongolia's

(BOM) prudential standards and their enforcement are being strengthened. Asset classification, provisioning, accounting, and audit standards need to be brought into line with international best practices at the earliest, with technical assistance from the IMF and IDA. Looking ahead, the staffs urge the BOM to develop and adopt strict selection criteria for the licensing of new banks, including foreign bank branches. These criteria could usefully be articulated in the full PRSP, with a view to fostering the development of a sound banking system as indicated in the I-PRSP. Given the need to boost public confidence in the banking system, the full PRSP could also contain a detailed description of the relevant formal deposit insurance system under consideration by the government, including the envisaged mechanisms to minimize moral hazard, protect the integrity of the deposit insurance fund, and limit possible future burdens on the budget.

18. The government's strong commitment to privatisation, as stated in the I-PRSP, is in line with an overall reform policy that attaches high priority to increasing private sector participation in the economy and to attracting foreign investment. The government's Privatisation Guidelines for 2001-04—which, among other things, abolished the negative list of large state enterprises approved by the previous Parliament—is an encouraging start. The staffs encourage the government, in the full PRSP, to propose a comprehensive medium-term time bound action plan to speed up the implementation of its privatisation program. It is expected that this plan would include the sale of several most-valued companies in the current fiscal year, and the presentation of a detailed medium-term program of energy sector reform and privatisation.

19. The proposed private sector-led strategy envisioned as the main basis for reducing poverty is not fully developed in the I-PRSP. The strategy to attract foreign direct investment, develop infrastructure, and simplify labor market policies, for example, is not clearly defined in the I-PRSP. The full PRSP will need to pay greater attention to these cross cutting issues and the sectoral impact of structural policies on the poor. This could include ways of improving access to markets for the poor, reducing regulatory barriers to private enterprise, and improving access to financial and non-banking institutions for different segments of the population. Furthermore, the full PRSP should include a discussion of the distributional impact of the current trade regime, including the export tax on cashmere, and assess the potential for poverty reduction from further trade liberalization.

20. A sound fiscal policy, in particular improved public expenditure management and a rationalized intergovernmental revenue sharing system, will be the cornerstone of macroeconomic policy over the medium term. The impact of improved public expenditure management on aggregate fiscal discipline will need to be developed further in the PRSP. Although the proposed Public Sector Management and Finance Law (PSMFL) would fundamentally change public sector management in Mongolia, the I-PRSP does not fully analyse the intended impact of the law on service delivery, on the roles and responsibilities of different levels of government, and on the risks associated with its implementation. In this context it will be important to reflect the findings of the Public Expenditure Review in the PRSP. The PER will propose actions to support the government's public reform agenda and ensure that these reforms will in fact pave the way for more efficient delivery of high quality

social services, especially to the poorer segments of the population. But additional work will be needed to analyse the incidence of public spending and to evaluate the effectiveness of key public programs for poverty reduction.

21. The government has introduced far-reaching reforms to strengthen financial management reporting, accounting, auditing, and monitoring and has begun by taking important steps to improve treasury controls over budget implementation, including by creating a Single Treasury Account at the BOM. An IMF treasury advisor, an ADB Ministry of Finance advisor and an IDA Fiscal Technical Assistance project are supporting the government's reform agenda in this area. It is expected that these reforms will help strengthen the accounting and financial management system of the government and in turn improve the quality and efficiency of service delivery, especially to the poor.

22. Civil service reform is discussed in the I-PRSP in the context of the PSMFL. The government recognizes that an important component of the poverty reduction strategy is a civil service that is professional, competent and efficient. The challenge for the government will be to rationalize human resource use, especially in the social sectors, in a manner that improves overall service delivery while ensuring that the wage bill is contained. However, no clear policy directions are proposed in the I-PRSP, and expectations of what the proposed law would deliver in terms of savings appear overly optimistic. The PER will help develop a framework for building a modern and professional civil service. On that basis the government is encouraged to adopt a clear strategy for civil service reforms, which can be articulated in the full PRSP.

23. The I-PRSP underscores the need to address poverty reduction from a complex, cross-sectoral perspective as evidenced by the discussion on energy, transport, regional development, and environmental protection strategies. However, the strategy outlined in the I-PRSP places too much emphasis on increasing infrastructure in the social sectors and contains little or no analysis of the current inefficiencies in the allocation of resources, the quality of services delivered, or the effectiveness of programs in achieving specified goals. If attention is not paid to these inefficiencies, the proposed infrastructure improvements would be neither cost effective nor sustainable. This is particularly true in health, where, though some investment in upgrading the current facilities is needed, there is a greater urgency to develop and fund the provision of basic health services for the poorer rural households. While the spread of HIV/AIDS is not a major source of concern for Mongolia, the government is encouraged to continue focusing its efforts on improving prevention especially through public education. In the education sector, the full PRSP needs to discuss the quality and access issues involved in providing education to nomadic populations in a more comprehensive manner, including the explicit budgetary implications of different policy options over the medium term.

24. The I-PRSP recognizes the difficulty of reducing the gender gaps in educational attainment (in favor of women) and employment opportunity (in favor of men) in Mongolia. Females have had better access to primary education than their male counterparts during the 1990s as a result of the high demand for boys' labor in herding. Educational attainment at

all levels is therefore also skewed in favour of women. However, women are not equally represented in the higher categories of the occupational scale. The full PRSP could discuss progress made in formulating policies to promote greater gender equity in terms of both educational and employment opportunity. Such a strategy could include a discussion of how women could become more involved in formulating and monitoring public actions, especially in areas such as the design of labor market policies, safety nets, health and nutrition. The staffs welcome the government's proposal for extensive consultations with women's NGOs in order to formulate a gender strategy.

25. Reducing unemployment is central to the government's poverty reduction strategy and the I-PRSP correctly identifies the need to improve labor market statistics to inform policy decisions. The I-PRSP rightly states that the main function of the government in this area is: creating a legal and regulatory environment that promotes greater private sector activity and protects labor, monitoring developments in the labor market, and providing effective training programs. Public works programs are proposed in the I-PRSP as a means of assisting the unemployed poor. However, the design of workfare programs is critical to their success, and a discussion of these issues in the full PRSP would be beneficial. The full PRSP also needs to contain a more detailed analysis of the impact, costs and benefits of the recently adopted Employment Promotion Law and other related laws, which include retraining components and small business creation. As the I-PRSP notes, an adequate social safety net, including an affordable and well targeted system of cash transfers, will be needed to support the poorest and most vulnerable groups. There is a need to examine further how effective the current system of cash transfers (which accounts for over 7 percent of GDP) is in alleviating poverty among vulnerable groups. The full PRSP could contain a list of specific actions to reconcile the government's objectives of higher pensions and broader coverage with deficit reduction and no increases in the tax burden.

26. The I-PRSP appropriately places emphasis on the need for a comprehensive and well thought out infrastructure policy to reduce poverty. Mongolia's climatic conditions and vast territorial distances make the development of a sustainable growth and poverty reduction strategy impossible without a true infrastructure strategy. The government correctly highlights the need to link citizens to markets and services and provide greater protection from harsh weather through a more reliable and efficient system of energy supply. Some of these policies will require substantial investments that should be fully costed out in the full PRSP, with priority given to the maintenance of the existing energy and transport facilities while new and alternative solutions are being developed. In this context, the staffs recommend that the government revisit plans to construct a "millennium road".

27. The I-PRSP recognizes the need to develop policies to address issues of regional development in order to promote more balanced growth and reduce migration. But the strategy proposed does not provide a satisfactory framework within which this complex issue can be addressed. The proposed plan, for example, to resort to fiscal and trade incentives to promote regional and industrial development, including through the establishment of free trade zones, needs to be critically reassessed, paying due regard to the need to ensure fiscal sustainability. The Bank and Fund staff teams are prepared to help the authorities develop a



regional development strategy that is better suited to Mongolia's precarious fiscal situation, taking into account lessons from global experience with such strategies. International experience suggests that tax and investment incentives and heavy public infrastructure investments are generally costly and ineffective, while reliance on directed credit, protectionist policies and restrictions on labor mobility generates distortions that can compromise overall growth and poverty reduction. The full PRSP could also provide a stronger analysis of the determinants of urban poverty, including the effects of rural-urban migration and, in this context, weigh alternative strategies to combat this poverty.

28. Two areas that receive little attention in the I-PRSP are rural development and risk management. Looking forward to the full PRSP, and building on the results of the PLSA, the government could provide a description of policies aimed at assisting the poor to increase and protect their asset holdings and to diversify their income sources. This could include a discussion of (i) integrated approaches to reducing vulnerability to drought/dzud, particularly in the pastoral livestock sector, and (ii) efforts to increase productivity in crop and livestock production. The Sustainable Livelihoods Project proposed for IDA funding aims to support the government's actions in some of these areas.

29. Donor support to Mongolia's transition has been unwavering, as reflected in the I-PRSP. However, despite broad consensus on the appropriate direction of policies, convergence is needed on the pace and sequencing of reforms between the donors and the government. In the full PRSP, it would be important to include a discussion of the leadership role of the government in coordinating aid. Full ownership of a credible policy and implementation agenda would make aid a more effective element in the government's poverty reduction strategy.

#### **IV. PREPARATORY PROCESS**

30. The government has fully owned and led the process of preparing the I-PRSP, and consultations within government on the I-PRSP have been remarkable. The Ministry of Finance and Economy (MOFE) led the technical working group responsible for drafting the I-PRSP which included members from every line ministry and representatives from the BOM and the NSO. The Minister of Finance and Economy and the Minister of Social Welfare and Labor chair the policy committee on the I-PRSP. At the initial stages, IDA and Fund staffs together with the MOFE jointly organized a workshop to discuss the PRSP guidelines and the available analytical tools, and to launch the I-PRSP process. The workshop benefited from broad participation of donors, private sector, rural and urban NGO representatives, and government organizations. The I-PRSP has been through seven drafts; with the third draft the government began sharing the document and requesting feedback from the donors and NGO community. The Bank and Fund staffs closely supported the process, providing regular comments on the various drafts prepared by the government.

31. The I-PRSP outlines a detailed participatory process for developing the full PRSP which is based on broader debate and extended public consultations especially in the rural areas. The staffs encourage the continued involvement of all levels of government in the

development of the PRSP and welcome the idea of a national media campaign and the proposed regional workshops. A vibrant and largely independent civil society is one of the strengths of Mongolia's political landscape and the staffs support the government's intentions to continue to involve civil society in the preparation, implementation and monitoring of the PRSP. Participation in the Development Debates and other conferences to discuss the I-PRSP enhanced civil society involvement and broad-based government support. Though some training has been offered to government officials, members of civil society, and parliament on involving civil society in the PRSP debate, the staffs agree with the views expressed in the I-PRSP that additional technical and financial support is needed for the consultative process. In developing the full PRSP, the government would be advised to seek early involvement of Parliament in the process. This will ensure that the strategic and policy planning processes of the PRSP are closely linked to the budget process, guarding against unrealistic proposals or expectations in the full PRSP.

## **V. RISKS TO THE STRATEGY**

32. The main risk to the government's strategy stems from the tensions between the government's ambitious social program agenda and the overall budget constraints that must be observed to secure macroeconomic stability. Better prioritisation and sequencing of the multiple objectives and programs laid out in the policy matrix will be essential to the success of the strategy. It is important therefore to establish early on a transparent and systematic process for assessing the trade-offs among competing priorities.

33. There is a risk that the government might succumb to pressures to favour certain special interests which would weaken the business environment, reduce FDI, harm the poor and threaten fiscal sustainability. In particular, any policies of the government and BOM associated with directed credit, including administrative or moral suasion to direct credit to favoured industries and other activities, would undermine the efficiency and soundness of the banking sector and could eventually place new burdens on the budget.

34. Risks to the I-PRSP agenda from natural and external shocks are also large. Mongolia remains vulnerable to natural disasters (e.g., severe winter and droughts) and adverse developments in foreign markets, such as a decline in commodity prices, given Mongolia's heavy reliance on export commodities (i.e., copper, gold, and cashmere). Such shocks could endanger the maintenance of a stable macroeconomic environment and sustained growth, which are necessary to reduce poverty.

35. Another external risk relates to capital inflows. Medium-term external viability will depend on sustained implementation of policies to attract foreign investment and continued donor support, preferably through grants. Reliance on non-concessional debt inflows should be avoided except where a compelling case can be made that the expected benefits would outweigh the heightened risks for external sustainability. Although currently Mongolia is not a candidate for debt relief under the HIPC initiative, its external debt burden is high. Key to reducing the vulnerability of Mongolia's external position over the medium term will be the successful resolution of all outstanding issues with bilateral creditors, particularly in

connection with the large stock of pre-1991 convertible ruble debts owed to Russia, and prudent external debt management.

36. The Bank and Fund staffs are aware that many of the objectives set out above may be too ambitious to be fully achieved within the limited time frame of the first full PRSP. Weak institutional and administrative capacity, in particular, have the potential to derail the implementation of the poverty reduction strategy, including the preparation of the full PRSP. A number of the proposed measures, including public sector management reforms and the MTEF, represent complex multi-year tasks. To measure success in these areas, both the government and the Bank and Fund staffs will need to look for incremental changes. As indicated in the I-PRSP, the government's capacity to develop and implement the poverty reduction strategy will also need to be augmented with external support. It is critical for donors to more effectively coordinate various capacity building efforts under the government's leadership.

## **VI. CONCLUSION**

37. The government's strong commitment to developing a comprehensive poverty-reduction strategy with broad civil society and stakeholder participation has been largely demonstrated in the I-PRSP process and document. Accordingly, the staffs of the World Bank and the IMF consider that the I-PRSP prepared by the government of Mongolia provides a sound basis for the development of a fully participatory PRSP and for IDA and IMF concessional assistance. The staffs recommend that the respective Executive Directors of the Bank and the Fund endorse this conclusion.

Mongolia: Key Bank/Fund Events Related to PRGF/PRSP,  
September 2001-December 2002

<b>Institution</b>	<b>Event</b>	<b>Expected Time</b>
World Bank and IMF	Interim PRSP and Joint Staff Assessment	September 2001
IMF	Board Approval of Three-Year PRGF Arrangement	September 2001
World Bank, IMF and AsDB	Public Expenditure Review	February 2002
World Bank	Sustainable Livelihoods Project	March 2002
IMF	2002 Article IV Consultation and First Review Under the PRGF Arrangement	March 2002
World Bank and IMF	Full PRSP and Joint Staff Assessment	September 2002
World Bank	Country Assistance Strategy	September 2002
IMF	Second Review Under the PRGF Arrangement	September 2002
World Bank	Poverty Reduction Support Credit	September 2002

### Summary of Staff Recommendations

<b>Poverty Diagnostics/Monitoring and Evaluation</b>	<b>Donor Support</b>
<ul style="list-style-type: none"> <li>• Use the results of the 2002 HIES as baseline for poverty monitoring</li> <li>• Complement the HIES as needed with special purpose surveys – e.g. of vulnerable groups and for public expenditure tracking</li> <li>• Collect information needed to analyze the incidence of public spending and to evaluate the effectiveness of key public programs</li> <li>• Analyze further the determinants of urban poverty, including the effects of rural-urban migration</li> <li>• Disseminate survey data widely to foster more analysis</li> <li>• Identify data needs and develop a plan to fill the gaps</li> <li>• Identify outcome indicators to monitor progress, including in the energy and transport sectors, and set realistic targets</li> </ul>	<p>IDA</p> <p>IDA</p> <p>IDA/IMF/ADB/UNDP</p> <p>IDA/UNDP</p>
<b>Economy-Wide Policies</b>	
<ul style="list-style-type: none"> <li>• Discuss in greater detail the sources of growth and supporting measures to achieve the growth targets</li> <li>• Identify a set of priority public policies and programs that will have the greatest impact on poverty reduction, fully cost proposed programs and ensure consistency with the macroeconomic framework</li> <li>• Reduce reliance on safety nets as the primary instrument for helping the poor and place greater emphasis on completing the agenda of unfinished structural reforms needed to underpin broad based growth</li> <li>• Develop more fully the elements of a private sector led growth strategy and their impact on the poor</li> <li>• Develop a medium-term action plan to speed up the implementation of the privatization program, including a timetable for the sale of several most-valued companies</li> <li>• Discuss the distributional impact of the current trade regime, including the export tax on cashmere, and assess the potential for poverty reduction from further trade liberalization</li> <li>• Discuss the poverty and social impact of energy sector reforms</li> </ul>	<p>IDA/USAID</p> <p>IDA/USAID</p>

<p><b>Fiscal Management</b></p> <ul style="list-style-type: none"> <li>• Firm up the estimates of the costs of reforms (e.g. civil service) and of potential privatization receipts that underpin the macroeconomic framework</li> <li>• Examine the implications of the Public Sector Management and Finance Law for service delivery and for the roles and responsibilities of different levels of government, taking into account the risks associated with its implementation</li> <li>• Develop a civil service reform strategy that aim to foster professionalism and improvement in service delivery while ensuring that the wage bill is contained</li> <li>• Propose measures to rationalize the intergovernmental revenue sharing system</li> <li>• Assess the fiscal and efficiency costs of the proposed approach to regional development and examine alternative approaches drawing on international experience</li> </ul>	<p>IDA/IMF</p> <p>ADB/IMF/IDA</p> <p>IDA</p> <p>IMF</p> <p>IDA/IMF</p>
<p><b>Sectoral Policies</b></p>	
<p><b>Financial Sector</b></p> <ul style="list-style-type: none"> <li>• Continue progress toward bringing prudential standards in the financial sector and their enforcement in line with international standards</li> <li>• Include discussion of the need to foster application of commercial criteria to allocate bank credit</li> </ul>	<p>IDA/IMF/ADB</p>
<p><b>Social Sectors</b></p> <ul style="list-style-type: none"> <li>• Reduce emphasis on expanding infrastructure and focus more strongly on enhancing the efficiency of resource use and the quality of service delivery</li> <li>• Focus on developing and funding the provision of basic health services for the poorer rural households and continue to emphasize public education for HIV/AIDS prevention</li> <li>• Consider developing different policy options, including the associated fiscal costs, for improving the access of nomadic populations to quality education</li> <li>• Discuss policies and measures under consideration to promote greater gender equity in terms of educational and employment opportunity</li> <li>• Assess the impact, costs and benefits of the newly adopted Employment Promotion Law</li> <li>• Examine the effectiveness of the current system of cash transfers in alleviating poverty</li> <li>• Formulate measures designed to reconcile higher pensions and broader coverage of the pensioner population with deficit reduction</li> <li>• Pay attention to the design of workfare programs to take full advantage of self-targeting</li> </ul>	<p>ADB</p> <p>ADB</p> <p>IDA</p>

<p><b>Infrastructure</b></p> <ul style="list-style-type: none"> <li>• Focus on the maintenance of existing energy and transport facilities in the first instance and revisit plans to construct a “millennium road”</li> </ul>	
<p><b>Rural Development</b></p> <ul style="list-style-type: none"> <li>• Provide a description of policies aimed at assisting the poor, particularly the rural poor, to increase and protect their assets and diversify their income sources</li> </ul>	
<p><b>Participatory Process</b></p>	
<ul style="list-style-type: none"> <li>• Broaden the participatory process to ensure an early involvement of Parliament and a more extensive representation of vulnerable members of society</li> <li>• Include a discussion of the leadership role of the government in coordinating aid</li> </ul>	<p>UNDP</p>