Report Number: ICRR0024182

1. Project Data

Project ID	Project Name
P161048	SFFSP
Country	**Practice Area(Lead)**
Mongolia	Governance

L/C/TF Number(s)	Closing Date (Original)	Total Project Cost (USD)
IDA-60840,IDA-60850	31-Jan-2022	12,185,718.56
Bank Approval Date	**Closing Date (Actual)**	
09-Jun-2017	31-Dec-2023	

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	12,000,000.00	0.00
Revised Commitment	12,000,000.00	0.00
Actual	12,185,718.56	0.00

Prepared by	Reviewed by	ICR Review Coordinator	Group
Alma Pekmezovic	Judyth L. Twigg	Kandi Magendo	IEGEC (Unit 1)

2. Project Objectives and Components

a. Objectives

The Project Development Objective (PDO) was to contribute to the Government of Mongolia’s (GOM's) efforts to strengthen fiscal and financial stability and improve the quality of expenditure management (Financing Agreement, p. 5).

For purposes of this Review, three objectives are assessed:

1. Strengthen fiscal stability

2. Strengthen financial stability
3. Improve the quality of expenditure management

At a November 2021 restructuring, a change in project activities led to one outcome indicator being replaced with an intermediate results indicator, somewhat lowering the ambition of the financial stability objective. However, because a split rating methodology would not affect the ratings, as that objective would be rated the same under both the original and revised indicators, a split rating is not undertaken in this assessment.

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

Yes

Did the Board approve the revised objectives/key associated outcome targets?

No

c. Will a split evaluation be undertaken?

No

d. Components

The beneficiaries of the project were the Ministry of Finance (MOF), the Ministry of Labor and Social Protection (MLSP), the Bank of Mongolia (BOM), the Finance Regulatory Commission (FRC), and other related agencies whose human resources and institutional capacity were to be enhanced.

The project consisted of the following five components:

Component A: Strengthening Macroeconomic and Fiscal Management (appraisal: US$2.71 million; actual: US$2.04 million) contained three subcomponents.

Under Subcomponent A.1, improving macroeconomic policy tools and enhancing research capacity, proposed activities were focused on upgrading macroeconomic models and enhancing forecasting and data analysis skills through targeted training. Proposed activities also included the establishment of an independent Fiscal Council to oversee government fiscal planning, the creation of a forum for civil society engagement in fiscal discussions, and the conduct of detailed economic research on the current socioeconomic context.

The proposed activities under Subcomponent A.2, strengthening fiscal policy and planning, focused on developing amendments to the Integrated Budget Law to expand budget coverage by incorporating unreported fiscal relations, such as public private partnerships (PPPs), contingent liabilities, off-budget spending, and future pension liabilities. The project also aimed to provide support for tax policy formulation, including assessing tax burdens, revising tax laws, and addressing international taxation issues. Technical assistance was also to be offered in areas such as transfer pricing, integrated tax file numbers, and improving the value-added tax refund system. The project also sought to support the building of a comprehensive revenue forecasting model, with additional inputs such as commodity prices and economic indicators, and piloting the model for large projects. Finally, the project aimed to support extensive media coverage and public consultations on fiscal legislation, tax policies, and proposed tax increases.

The specific activities under Subcomponent A.3, strengthening capacity for debt management and external development financing operations, focused on improving the regulatory framework for issuing and trading international and domestic government bonds, as well as refining government on-lending procedures. Support was also to be provided for the preparation of the Government Medium-Term Debt Management Strategy, including the development of an implementation action plan and periodic reports. Additionally, a platform and database were to be created to establish direct contact with investors and enhance relationships. Public outreach activities were to be promoted to inform the public about government debt and debt-related legislation, while training programs were to be implemented to improve MOF debt management capacity. The activities also aimed to strengthen the legal framework for planning and executing development financing projects, enhance the MOF's capacity to assess project effectiveness, and create an Oracle Database Application for better portfolio management.

Component B: Improving the Efficiency of Public Financial Management (appraisal: US$3.8 million; actual: US$5.14 million) contained four subcomponents.

Subcomponent B.1, improving budget credibility and execution, aimed to strengthen the Medium-Term Fiscal Framework (MTFF) process by improving regulatory frameworks, fiscal forecasting, and budget alignment. Proposed activities included improving budget planning, expenditure preparation, and execution processes, with technical assistance for MOF and ministries. It also focused on improving budget control, internal audit, and risk management.

Proposed activities under Subcomponent B.2, increasing budget comprehensiveness and transparency, included strengthening government accounting, financial reporting, and audit oversight, as well as enhancing the Government Financial Management Information System (GFMIS), cash management, and Treasury operations by updating the Integrated Financial Management Information System to support International Public Sector Accounting Standards (IPSAS) implementation.

Subcomponent B.3, strengthening public financial management (PFM) institutional capacity, aimed to strengthen the MOF through functional reviews and process reengineering. It included capacity building and training programs on PFM, information and communications technology, leadership, fiscal transparency, and citizen engagement.

Subcomponent B.4 strengthening public investment management (PIM), focused on developing PIM operational guidelines, rationalizing underperforming projects, and creating processes for adequate maintenance funding. Specialized training programs were also provided for high-expenditure planning and investment offices.

At a November 2021 restructuring, Component B was revised to include activities to enhance budget control through an Integrated Payroll System (IPS), and upgrades to the GFMIS were revised to emphasize operational customization and improved system integration, reflecting the aim for greater interoperability with other systems, including the Public Investment Management Information System and Treasury web portal.

Component C: Enhancing Financial Sector Stability (appraisal: US$2.85 million; actual: US$2.35 million) contained five subcomponents.

Subcomponent C.1, developing and implementing a financial sector development strategy, focused on creating a Financial Sector Medium-term Development Strategy (2017–2025) to enhance financial stability, efficiency, and inclusiveness. It included developing an action plan, training civil servants in regulatory agencies, creating a crisis management strategy, strengthening risk evaluation and sustainable mortgage programs, and improving legislation on foreign exchange and saving/credit cooperatives.

Subcomponent C.2, supporting the Development Bank of Mongolia (DBM), involved reviewing and amending the Development Bank Law to align with audit recommendations, improving DBM's governance and risk management, and building capacity to prepare feasibility studies for large infrastructure projects.

Subcomponent C.3, strengthening financial safety nets, aimed to improve financial safety net knowledge, crisis preparedness, and management tools. It also fostered cooperation among safety net institutions and streamlined legislative processes for safety net frameworks.

Subcomponent C.4, strengthening the FRC, included launching a midterm capacity-building program for FRC inspection officers, supporting the drafting of non-bank financial market laws, and reviewing the legal environment for securities, insurance, and microfinance markets.

Subcomponent C.5, improving the capacity of the BOM, sought to enhance countercyclical policy formulation, design a macro-prudential framework, strengthen the Fiscal Stability Council (FSC), upgrade credit information systems, increase anti-money laundering training, and improve research capabilities in microeconomics with professional software access.

Component D: Strengthening of the Social Protection System (appraisal US$2.00 million; actual: US$1.79 million) contained two subcomponents.

Subcomponent D.1, strengthening social welfare design, targeting, operations, and performance, focused on improving the equity and efficiency of the social welfare system by consolidating fragmented programs and enhancing both monetary and non-monetary support. The project sought to support the design and implementation of a comprehensive reform of welfare services, improve the accuracy of the proxy means test poverty targeting system through verification measures, and expand the use of the Integrated Household Database. Additionally, capacity building, monitoring and evaluation (M&E) support, and enhancements to the Welfare Administration Information System were to be undertaken to strengthen program delivery and support evidence-based policy making.

Subcomponent D.2, strengthening social insurance design, governance, and financial management, aimed to translate pension reforms into specific legal provisions and strengthen the institutional arrangements for social insurance schemes, particularly through technical assistance to improve the pension system's sustainability. The project sought to support an increase in coverage among informal workers, develop legal frameworks for private pensions, and improve non-pension elements like disability, survivorship, and maternity benefits. At the same time, proposed governance and accountability reforms were to be undertaken to enhance financial control, audit practices, and benefit processing, while public awareness efforts were to build consensus around pension reform needs. In-house actuarial and technical capacities were to be developed to ensure data-driven policy making,

Component E: Project Management and Monitoring (appraisal: US$0.64 million; actual: US$0.87 million) was to support project management, implementation, coordination, and M&E, including audit arrangements, reporting requirements, procurement, and financial management activities.

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

Project Cost: Total project cost at appraisal was US$12 million. The actual amount disbursed was US$12.19 million, with the difference due to exchange rate fluctuations.

Financing: The project was financed by a credit from the International Development Association (IDA) of SDR6.0 million (US$8.2 million equivalent) and an IDA hard-term credit of SDR2.8 million (US$3.8 million equivalent).

Borrower Contribution: The Borrower did not contribute any funds to the project.

Dates: The project was approved on 9 June 2017 and became effective on 11 September 2017. A mid-term review (MTR) was conducted on 15 April 2020. Initially, the project was projected to close on 31 January 2022, but it actually closed on 31 December 2023.

The project was restructured twice during its lifetime.

First restructuring (November 2021): This restructuring extended the project closing date by 15 months to 30 June 2023. The Mid-Term Review (MTR) had noted substantial progress in components A, B, and C, contributing to progress on several intermediate indicators. However, delays caused by COVID-19 and the 2020 Parliamentary elections, which led to the creation of a new Ministry of Economy and Development (MED), required an extension of the project closing date and revisions to the Results Framework. The latter included changes to the PDO indicator "Financial sector stability improved by decreasing percentage of non-performing loans (NPLs)". The indicator was revised as it no longer adequately represented the main project activities, and there were issues with how NPLs were recognized and measured. Instead, a new indicator, "regulatory framework for the financial sector improved as measured by the number of new or revised legal acts submitted to Parliament," was adopted.

Furthermore, the first restructuring led to the addition of an intermediate result indicator (IRI) for the design and implementation of a digital payout system, and the introduction of a new Component B IRI related to an Integrated Payroll System. Component B's GFMIS IRI was also revised, and the Component D IRI related to social welfare consolidation was updated to reflect submission of a draft law to Parliament.

Second restructuring (April 2023). This restructuring extended the project closing date by an additional six months to 31 December 2023. The purpose of the extension was to allow additional time to achieve project objectives.

3. Relevance of Objectives

Rationale

Relevance to country context: At the time of project appraisal, Mongolia was navigating the dual challenge of harnessing long-term opportunities while mitigating short-term vulnerabilities and risks. The country had experienced a period of significant economic growth, driven by an investment and mining boom, making it the world's fastest-growing economy in 2011. However, this growth was uneven and closely tied to fluctuations in international commodity markets, leading to fiscal volatility. By 2016, growth had decelerated sharply from 11.6 percent in 2013 to just 1 percent, driven by a collapse in foreign direct investment and falling mineral prices. This resulted in large fiscal deficits, peaking at 19 percent of gross domestic product (GDP) in 2016, and a corresponding increase in public debt, which exceeded 40 percent of GDP (PAD, p. 8). The introduction of an MTFF, legalized fiscal rules, and tighter control over budget execution had failed to prevent volatile and unsustainable fiscal outcomes.

In terms of financial stability, Mongolia's banking sector, which held 95 percent of the country's financial assets, was dominated by high ownership concentration and limited competition. Asset quality was deteriorating, and there were significant regulatory and developmental gaps in key institutions such as the BOM, FRC, and the Deposit Insurance Corporation of Mongolia (DICOM). Weaknesses in financial oversight, inadequate risk management, and a lack of crisis preparedness in these institutions further undermined financial sector stability. Moreover, the DBM had become a major source of government-guaranteed borrowing, raising concerns about its governance and the fiscal risks associated with its operations (PAD, p. 9).

Despite efforts to improve transparency, such as the adoption of the Glass Account Law (a 2014 law requiring that government entities and state-owned enterprises disclose detailed financial and operational information on a public website), issues with citizen engagement persisted. This was reflected in Mongolia's low ranking in the 2015 Open Budget Index (OBI) report, which underscored the need for greater transparency and participation in public financial management. The 2015 Public Expenditure and Financial Accountability Assessment (PEFA) further highlighted these challenges, emphasizing the importance of strengthening fiscal discipline and public involvement in budget processes.

Expenditure management was another critical issue. Despite higher public investment levels compared to other countries, Mongolia’s public investment did not result in more efficient public spending or improved infrastructure financing and service delivery. The PIM system was weakened by a fragile legal framework, poor project planning, and insufficient evaluation of projects. Furthermore, PPPs and concessions were often managed outside the formal PIM system, introducing additional risks and inefficiencies. This situation highlighted the need to improve the existing PIM system and to assess the country’s capacity to implement effective projects in a macroeconomically sustainable manner (PAD, p. 8).

Finally, Mongolia’s social protection system was fragmented, with numerous small cash-based benefits raising concerns about sustainability and equity. While some programs, like the Food Stamp Program, were targeted at the most vulnerable, the near universality of the Child Money Program highlighted issues with the overall design of the social welfare system. Spending levels were comparable to middle- and high-income countries, but the untargeted and fragmented nature of these programs limited their effectiveness.

Alignment with GOM reform agenda: The PDO was relevant and consistent with the government's priorities. Throughout its delivery, the project was closely aligned with the government's PFM action plan. Despite changes in government and the splitting of some functions from the MOF into the newly established MED following the 2020 Parliamentary elections, the government remained committed to the project's PFM activities. The project was also designed to support Mongolia’s Economic Recovery Plan (ERP, 2016–2020), which called for critical PFM reforms. Beyond PFM, the project also addressed financial sector stability and social protection, aligning with government efforts to strengthen regulatory institutions like the BOM and the FRC. Reforms aimed at improving financial oversight and mitigating fiscal risks were key priorities of the government, especially given the banking sector's dominance and vulnerabilities. Additionally, the project supported social protection reforms, particularly in enhancing the effectiveness and targeting of cash-based welfare programs, in line with government goals of improving equity and sustainability. Despite the splitting of some MOF functions into the newly established MED after the 2020 elections, the government maintained strong commitment to the project's multi-sector reform agenda.

Alignment with World Bank strategy: The project was well aligned with the World Bank's CPF for Mongolia at closing (2021-2025), particularly in supporting fiscal management and strengthening macroeconomic stability through components A, B, and D. The CPF's focus on improving economic governance and enhancing social protection (Focus Areas 1 and 3) was reinforced by the project's fiscal buffers, which proved essential in navigating the COVID-19 crisis. Post-pandemic, the CPF highlighted the increased challenge of improving macroeconomic and monetary policies and enforcing fiscal discipline. The CPF emphasized the need to phase out short-term relief measures and return to structural reforms. It also noted potential risks related to financial sector stability due to weak capital buffers (Component C) and increased vulnerability of the poor, exacerbated by COVID-19 (Component D). The project's PDO remained aligned with CPF Focus Area 1 on Strengthening Economic Governance and Focus Area 3 on Improving Quality of Life, particularly in social protection, while addressing broader economic goals.

Alignment with Bank and other development partner support: The project built on the achievements of the previous Multi-Sectoral Technical Assistance Project (MSTAP, 2010–2017, P119825), which aimed to enhance the government's capacity in fiscal policy, social protection, and financial sector regulation. It built on the groundwork laid by the MSTAP by continuing essential PFM reforms and supporting the GOM's ERP. In response to Mongolia's fiscal challenges, multi-donor support, including the IMF's Extended Fund Facility (EFF) and the Bank's Second Economic Management Support Operation (EMSO, US$100 million, 2019-2020, P167485), was initiated to address fiscal deficits, rebuild reserves, and promote sustainable growth.

This project was designed to support prior actions and conditions contained in the EMSO. EMSO1, approved on 30 November 2017 (consisting of a US$120 million IDA grant), aimed to stabilize Mongolia's fiscal position by addressing deficits, rebuilding reserves, and promoting sustainable growth. While the project was approved before EMSO1, it aligned with these goals by focusing on PFM reforms, fiscal policy improvements, and social protection. EMSO2, (consisting of a US$20 million IBRD loan and US$80 million IDA grant), continued these efforts, though it was delayed by a year. The project supported EMSO2's emphasis on fiscal discipline and structural reforms, contributing to the broader fiscal stabilization and public financial management objectives outlined in both EMSO operations.

The project also complemented key elements of the Strengthening Governance in Mongolia project (SGM, 2019-2023, US$2.8 million, P168248), which supported development of a PFM action plan, establishment of the FSC, and advancement of gender-responsive budgeting and PIM elements. Although the FSC was formally established under the SGM Project, the groundwork for its eventual creation—such as reviewing the legal framework and supporting institutional development—was carried out by the current project.

Overall assessment of Relevance: The project's relevance is rated Substantial. It aimed to address Mongolia's critical economic challenges, aligning with national priorities and the World Bank's CPF. The project's alignment with evolving government needs and predecessor projects underscores its relevance. However, the objectives were broad in scope, encompassing macro-fiscal management, social protection, and financial sector regulation, weakening the project's focus and coherence. In particular, the third objective—improving the quality of expenditure management—was framed broadly, while the project's activities and outcomes related to that objective were concentrated almost exclusively on social welfare expenditure. There was a misalignment between the broad objective and the narrower focus of the interventions, diminishing clarity in targeting its goals (ICR, p. 31).

Rating

Substantial

4. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective

Strengthen fiscal stability

Rationale

A theory of change (TOC) was not a requirement at the time of project appraisal but was implicit and has been developed ex-post. Broadly scoped across the entire project, the TOC sought to combine multiple, disparate goals, integrating macro-fiscal management goals with sector-specific outcomes in social protection and financial regulation within a single framework. Within this framework, the TOC posited, amongst other things, that by developing and implementing advanced economic and revenue forecasting tools and building institutional capacity, fiscal discipline would be significantly enhanced. Key activities linked to Objective 1 included supporting the establishment of the FSC, reviewing and updating the legal framework and implementing a Medium-Term Debt Management Strategy (MTDS). The projected outputs were upgraded revenue forecasting models, publicly available fiscal reports and data, and enhanced budget processes. These outputs, in turn, were expected to reduce aggregate expenditure deviations and ensure the effective implementation of commitment controls. Ultimately, the higher-level outcomes envisioned were a stabilized fiscal environment with reduced deficits and public debt, contributing to strengthened fiscal stability.

However, the results chain within the TOC reveals several gaps. While the TOC links activities to specific outputs, such as the development of economic forecasting tools, it lacks intermediate steps that clearly demonstrate how these outputs lead to broader fiscal stabilization outcomes such as reduced deficits and public debt. The assumed causal relationships—such as how improved revenue models directly reduce public debt—are not fully articulated, and external factors that could influence these outcomes are not accounted for. Overall, while the TOC provides a broad structure that captures the project's multi-sector goals, there are missing links in the results chain, particularly in how outputs translate into higher-level outcomes.

Outputs

The indicators used to measure progress toward fiscal discipline were generally adequate, capturing key elements such as revenue forecasting, debt management, and budget control. The project's progress toward improving fiscal discipline is assessed as substantial, with significant achievements across multiple key areas.

- Revenue Forecasting: The project upgraded Mongolia's revenue forecasting models, resulting in more accurate financial planning for both general revenues and mega-projects. A comprehensive financial model was developed and fully operationalized, meeting the project's IRI for revenue forecasting **(IRI, Achieved)**.
- Budget Control: To strengthen budget control and accountability, the project implemented the GFMIS Version 7. This upgraded system enhanced financial reporting, supported IPSAS implementation, and improved overall budget management. The MOF also drafted and approved a policy document on budget control and risk management. Additionally, a new IPS was developed, tested, and rolled out, which further improved budget control, accountability, and discipline. All relevant IRIs were achieved **(related IRIs, Achieved)**.
- Debt Management: The project supported the development and approval of an MTDS and action plan **(IRI, Achieved).**
- Public Investment Management (PIM): A PIM Guideline for regulating the procedures and responsibilities of PIM project strategy/planning, appraisal, selection/prioritization, and budgeting was developed and endorsed by the MOF. These guidelines established standardized procedures for planning, appraising, selecting, and budgeting investment projects **(IRI, Achieved).**
- Payroll Improvements: The project also addressed inefficiencies in the payroll system and management information systems. The introduction of the IPS provided greater control over payroll. **(IRI, Achieved).**
- Public Outreach: Public outreach activities on proposed changes to legislation were conducted, exceeding the target with more than two activities completed **(IRI, Achieved).**

Outcomes

- **PDO Indicator 1:** Contain aggregate expenditure deviation to within 15 percent or less, and commitment controls are in place. Baseline: >15%. No commitment controls. Target: <15%. Commitment controls in place. Actual: <2%. Partial commitment controls. The project partly achieved the target.

The project centralized local budget planning into a national database, provided unified digital budget information, and established infrastructure and procedures for commitment control, resulting in improved budget planning and bringing expenditure deviations down to less than 2 percent. Thus, the PDO indicator for containing aggregate expenditure deviation to within 15 percent was achieved (with baseline deviation being greater than 15 percent).

However, the PDO-level outcome indicator of having commitment controls in place was achieved for recurrent expenditure only. Commitment control for recurrent expenditures was launched nationwide from January 2023. For capital expenditure, which accounted for about 23 percent of total government expenditure in 2023, commitments are only recorded but not controlled against the allotted budget, as of project closing. **(PDO Indicator 1, Partially Achieved)**

- Improvements in PEFA assessment: By project closing, 12 PEFA indicators had shown progress since 2015, while only 3 indicators showed deterioration. The ICR notes that many of the improved PEFA scores were in areas supported by the project (ICR, p. 17). This outcome, although noted in the ICR, was not captured in the results framework.
- Improvement in OBI score: The project's contributions to system enhancements, digitalization, and data exchange between PFM systems supported an increase in Mongolia's Open Budget Index (OBI)

score from 46 to 62, indicating that the government had made more budget-related information publicly accessible, enhancing public oversight and greater fiscal transparency. This outcome was not captured in the results framework.

Overall, progress towards achievement of Objective 1 is assessed as substantial, with the achieved outcomes demonstrating significant advancements in fiscal stability, subject to some minor shortcomings (in relation to capital expenditures), as noted above. All IRIs were fully achieved. While the project exceeded the target for reducing aggregate expenditure deviation, it only partially achieved the target for commitment controls, making the overall first PDO-level indicator partially achieved.

Rating

Substantial

OBJECTIVE 2

Objective

Strengthen financial stability

Rationale

The TOC for the second objective sought to enhance financial stability by providing targeted support to key institutions, including the MOF, BOM, FRC, the DBM, and DICOM. Key activities included improving financial sector regulation, revising and developing financial laws, and implementing capacity-building programs for the aforementioned financial regulatory institutions. The expected outputs were the submission of new or revised legal acts to Parliament, a strengthened regulatory framework, and enhanced institutional capacities, all of which were expected to contribute to enhanced financial stability.

Outputs

- BOM staff attended international Anti-Money Laundering (AML) / Combating the Financing of Terrorism (CFT) training and Financial Action Task Force (FATF) plenary meetings. BOM developed a draft AML/CFT National Strategy and Action Plan.
- The project supported DBM in restructuring in 2019 and 2022 to enhance internal control, corporate governance, transparency, and risk management. The project also assisted DBM in developing methodologies for project development, credit appraisal, and risk management.
- The project assisted with preparation, submission to Parliament, and implementation of the Financial Sector Medium-term Development Strategy 2017-2025. Preparation and submission to Parliament of the Strategy was an IRI **(IRI, Achieved).**
- The project introduced a delivery versus payment (DvP/T+2) settlement system from March 2020 to meet international standards.
- The project developed a macro-prudential framework and web-based database system for the FRC, including training and equipment **(IRI, Achieved).**
- A digital payout system to manage different-sized banks and enhance DICOM effectiveness was designed, acquired, and implemented **(IRI, Achieved)**

Outcomes

- **PDO Indicator 2:** Regulatory framework for the financial sector improved as measured by the number of new or revised legal acts submitted to the Parliament. Baseline: 0. Target: 10. Actual: 10. The target was achieved.

The regulatory framework for the financial sector was improved as measured by the number of new or revised legal acts submitted to Parliament. The target was to submit ten legal acts (baseline: 0), which was successfully achieved. Ten financial sector laws were submitted to Parliament as part of the project's regulatory reform efforts. The following five laws had been approved at the time of the ICR: 1) Banking Law – Approved. 2) Law on Deposits, Loans, and Payments Transactions of Banks and Authorized Legal Entities – Approved. 3) Law on Virtual Asset Service Providers – Approved. 4) Law on Financial Consumer Protection – Submitted (awaiting approval). 5) Law on Currency Regulation – Submitted (awaiting approval). In addition to these, five other financial sector laws were submitted as part of the project but were not detailed in the ICR. (ICR, p. 19).

While the PDO indicator was achieved, there were 15 outstanding laws and regulations that were not yet approved and were either drafted or were in the process of being submitted to the Parliament at the time of project closing. Thus, several laws and major amendments concerning the financial sector remain pending - having either been submitted to the Parliament (and not yet approved) or pending submission. (ICR, p. 19). **(PDO Indicator 2, Achieved).**

- The legislative amendments contributed to Mongolia's removal from the "grey list" of countries with strategic deficiencies in AML/CFT operations, indicating improved financial sector oversight.

Overall, progress toward achieving Objective 2 is rated as Modest. Despite some achievements, such as the submission and approval of key legislative acts and the operationalization of the macro-prudential framework, shortcomings remain. These include the incomplete implementation of critical measures like the deposit insurance payout system and the development of a comprehensive legal framework for non-bank financial markets (both critical activities, specified in the PAD, that were not achieved), coupled with persistent weaknesses in regulatory and supervisory capacities. Efforts to reform the corporate governance framework of the DBM did not fully meet international benchmarks, leading to the need for adjustments in the project's interim result indicators for DBM. Additionally, issues with the legal and governance framework remain outstanding, hindering the completion of key measures outlined in the PAD. The IMF's most recent Article IV mission report (IMF, 2023) highlights ongoing weaknesses in the regulatory framework and limited supervisory capacity for non-banking financial institutions. Furthermore, additional legal reform is necessary to complete fully the financial sector law reform process.

Finally, a critical issue with the PDO indicator used to measure progress toward Objective 2 is that it primarily focuses on outputs—specifically, the number of legal acts submitted to Parliament—rather than on outcomes that reflect the actual impact or effectiveness of the legal reforms. This diminished the appropriateness of the indicator as a measure of the objective. While the indicator was relevant, it assessed the submission of laws rather than the broader institutional and policy changes necessary to achieve financial sector stability. By shifting from an outcome-based measure, such as the percentage of non-performing loans (NPLs), to an output-based measure, the assumption was made that submitting laws would automatically lead to improved financial sector stability. However, this approach did not fully account for the actual effectiveness or quality of the legal reforms once the laws were passed, nor did it reflect the real impact of those reforms on the financial sector.

Rating
Modest

OBJECTIVE 3

Objective
Improve the quality of expenditure management

Rationale
The TOC underpinning Objective 3 sought to improve the quality of expenditure through a combination of better design, targeting and modernization of social welfare programs. Although the objective targeted improvements in expenditure management (with no qualifiers), activities were focused solely on social expenditure management. Key activities included developing a comprehensive database of poor households to enhance the targeting mechanisms for social welfare program; ensuring that social welfare benefits were aligned with actual needs through better data and targeting methods; and supporting the digitization of social welfare services and payments, which involved transitioning from paper-based systems to digital platforms, enabling citizens to apply for social welfare benefits online and receive payments via electronic vouchers or digital cards. The anticipated outputs included improved social welfare policies, legal reforms for targeted programs, and enhanced systems for identifying and supporting the poorest 20 percent of the population, particularly through improved access to social services via digital platforms. These outputs were expected to result in increased poverty-targeted social welfare support, leading to better-quality expenditure management.

Outputs

- Parliament approved amendments to social insurance legislation in alignment with the State Policy on Pension Reform (2015-2030) **(IRI, Achieved)**. To this end, the project supported the capacity-building efforts of relevant institutions, enabling them to develop, consult, and finalize the social insurance legislation. Formal and informal consultations, as required under the country's Law on Legislation Acts, were a crucial component of this process. For example, public outreach activities were organized during the development of the social welfare laws, ensuring that stakeholder engagement and feedback were incorporated.
- The Social Insurance Package Law was first submitted to Parliament on October 15, 2021, followed by the Social Insurance General Law, the Law on Pensions from the Social Insurance Fund, and related bills on January 9, 2023. Four of the five laws were approved on July 7, 2023, with the draft Law on Private Pensions still pending. The revised Social Welfare Law draft, which consolidates existing welfare programs, has been prepared but not submitted to Parliament by the time of project closing **(IRI, Not Achieved).**
- Improvements were realized in the design, targeting, operations, and performance of the food stamp program. The eligibility criteria for the food stamp program were better defined to ensure more accurate targeting. The project facilitated the transition from a paper-based to an electronic food voucher system (digital cards).

- In total, 64 social welfare services were brought online, enabling citizens to apply online. Digital payments were implemented for the distribution of social assistance benefits, streamlining processes.

Outcomes

- **PDO Indicator 3.** Aggregate poverty-targeted social welfare support going to the poorest 20 percent is increased. Baseline: Food Stamp Program is the only poverty targeted social welfare benefit with a total budget of MNT17 billion. End Target: Aggregate amount of poverty targeted social welfare benefits (including the FSP and other/s) going to the poorest 20% is increased by 50 percent to MNT22.5 billion. The project achieved 100 percent more than its target.
- The aggregate poverty-targeted social welfare support going to the poorest 20 percent increased from a baseline of MNT17 billion to MNT47 billion in 2023, surpassing the end target of MNT22.5 billion **(PDO Indicator, Achieved)**.
- Improved Social Welfare Operations: The efficiency and accessibility of social welfare services improved through the introduction of digital tools and online service delivery. The digitization of social welfare administration has led to significant cost savings, including MNT52.1 million from reduced printing expenses and MNT197.5 million from lower commercial bank fees in 2022. Digitization has also minimized the need for social welfare recipients to visit physical locations to submit forms and eliminated costs associated with producing paper-based food stamps, which have now been replaced by digital cards (ICR, p. 52).

Overall, the project's achievements under Objective 3 can be assessed as Substantial, subject to some caveats. Improvements in the targeting and delivery of social welfare benefits, particularly the doubling of poverty-targeted social assistance, indicate a meaningful enhancement in the effectiveness of social protection. The successful digitization of services and payments has modernized the social welfare system, making it more accessible and efficient. Given the focus on consolidating fragmented welfare programs, the social insurance law amendments have been timely and necessary. Strengthening the legal framework was essential for providing a stronger foundation for better social welfare policy implementation, particularly in addressing gaps in social protection coverage. However, although the project supported the drafting of amendments to the Social Welfare Law aimed at consolidating existing social welfare programs, these amendments were not submitted to Parliament by the time of the project's closing. Thus, some legal reforms in the social welfare system were left incomplete. Furthermore, the project focused solely on social welfare expenditure, while the objective called for improvement in the quality of expenditure management more generally.

Rating

Substantial

OVERALL EFFICACY

Rationale

Given the ratings for each objective—Objective 1 as substantial, Objective 2 as modest, and Objective 3 as substantial—the overall efficacy of the project can be assessed as substantial. The project achieved significant progress in most of its key areas, particularly in enhancing fiscal stability and improving the quality of social welfare systems. While there were some limitations in fully realizing all the planned reforms, particularly under Objective 2, the overall impact of the project remains strong, with substantial advancements in two out of the three primary objectives detailed in the PAD, alongside additional outcomes that emerged during project restructuring. Beyond meeting its initial objectives, the project exceeded expectations by developing and implementing the Integrated Payroll System and the Intermediate Service Platform, which were not part of the original plan.

Overall Efficacy Rating

Substantial

5. Efficiency

The PAD and ICR state that no standard economic rate of return (ERR) or formal financial analysis was conducted for the project. This decision was based on the nature of the project, which focused on institutional capacity-building and human resource development across entities such as the MOF, MLSP, and the Central Bank. As noted in the PAD, the project was not amenable to traditional financial analysis due to the limited opportunities for cost recovery within these government institutions (PAD, p. 31). However, both the PAD and ICR acknowledged the potential for fiscal savings through improved budgeting, expenditure management, and public investment efficiency.

Overall, project initiatives contributed to the enhanced efficiency and adaptability of Mongolia's financial management systems. The project facilitated a strategic shift from reliance on the FreeBalance suite—a more traditional, monolithic system approach—to a modular strategy that allowed for more flexible, locally developed solutions. The Intermediate Service Platform further facilitated the integration and sharing of data across different financial management modules, improving overall system functionality. The project's enhancements to budget preparation and execution systems, including the development of the FISCAL budget system and the PIMIS, as well as the digitization of social welfare service delivery, significantly streamlined government budgeting, accounting, and reporting processes.

Another notable efficiency gain was in training delivery. By moving from a fully face-to-face training model to a blended learning approach that combined online and in-person training, the project achieved a significant reduction in training costs. Specifically, the average cost of training per person dropped by 68 percent in 2021 and by 44 percent in 2022. Even after some face-to-face training elements were reintroduced in 2023, the overall per-person cost remained around 50 percent lower than the 2020 baseline, without compromising the quality of training.

Several other elements further enhanced the efficiency of implementation. For example, the introduction of the MOF's internal performance management system (Leader Monitoring) was a critical element in advancing reforms, particularly in PFM. This system incentivized progress by embedding the PFM action plan within the MOF's internal performance framework, creating ownership and ensuring sustained momentum throughout the project. The system also helped align the project's Components A and B with broader reform efforts under the MOF (ICR, p. 26).

Furthermore, the complementarity between this and other concurrent initiatives, such as the SGM project, enhanced the overall effectiveness and coordination of interventions. These two projects worked in tandem, allowing for the continuation and reinforcement of critical reforms, such as the rollout of gender-responsive budgeting pilots and the implementation of international agreements on taxation (e.g., Base Erosion and Profit Sharing – BEPS). This coordination contributed to the success of both projects by preventing duplication and ensuring a more coherent approach to reforms (ICR, p. 26). In this context, strong working relationships between the Bank and key counterparts, including the MOF, BOM, and MLSP, also played a vital role (ICR, p. 29).

However, there were some efficiency challenges, particularly due to unclear institutional roles and responsibilities following the establishment of MED. This institutional change created some ambiguity in responsibilities, especially concerning PIM functions that had been primarily developed under the MOF. Although the project saw notable success in building PIM capacity, the realignment of institutional responsibilities caused delays and uncertainty, requiring further clarification from the government (ICR, pp. 30, 31).

In conclusion, the overall efficiency of the project is rated modest due to the limited evidence of efficiency gains in areas beyond PFM. While the project demonstrated notable efficiencies through the digitization of budgetary processes, social welfare administration, and payroll systems—leading to cost savings in these areas—there is insufficient evidence to support similar efficiency gains in the broader objectives of the project, such as social welfare reform and financial sector strengthening.

Efficiency Rating

Modest

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

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

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

6. Outcome

The outcome rating is Moderately Satisfactory. This reflects a substantial rating in the relevance of objectives and overall efficacy, and a modest efficiency rating.

a. Outcome Rating

Moderately Satisfactory

7. Risk to Development Outcome

The project faces several risks that may impact its sustainability and long-term success. Economic risks, particularly the potential for increased global inflation following the COVID-19 pandemic, could undermine Mongolia's financial and economic stability. Global geopolitical tensions further exacerbate these risks. On the institutional and technical side, while the project successfully introduced technology-based information systems, their sustainability depends on regular maintenance, security updates, and continuous monitoring. Ensuring that these systems remain functional requires the implementing agency to prioritize human resources, structure, and skills. However, if technological support for these systems is reduced or halted, further development and improvement may be jeopardized, potentially limiting the sustainability of the project's outcomes.

Political risks also pose a threat to the project's sustainability. Future government resolutions and decisions could affect the use, scope, and purpose of the project's outputs. Key reforms in social protection, public investment, and budgeting processes, which were advanced through the project, require ongoing Cabinet support. Any changes in political leadership or shifts in government priorities could delay or derail the implementation of these reforms. Additionally, unresolved institutional ambiguities—such as those introduced by the creation of the MED, which complicated roles and responsibilities related to PIM—remain a concern. While the Bank has advised the GOM on clarifying these roles and is preparing further guidance, governance concerns persist, particularly regarding financial sector supervision and the independence of institutions like DICOM.

Despite these challenges, the enhanced PFM systems and tools introduced by the project are likely equip the government to better manage these risks, having provided a solid foundation for continued reform and improvement. A new draft PFM action plan for 2023-27 was developed, building on this project's foundations and the complementary SGM project. This new plan emphasizes enhancing policy linkages to the budget and incorporating performance management in budget planning and execution to improve service delivery efficiency. The success of this project in fostering strong dialogue between the Bank and the MOF ensured close consultation during the draft PFM plan's preparation.

8. Assessment of Bank Performance

a. Quality-at-Entry

The Bank had a track record of supporting similar multisectoral operations, such as the MSTAP (2010-2017, US$12 million, P119825), which helped establish and maintain a trusted relationship with key counterparts for this project, including the MOF, BOM, and MLSP. Accordingly, the design of this lending operation was informed by lessons from these previous initiatives, drawing specifically on experiences from the MSTAP (collected in the Implementation Status and Result Report from December 2016) and the Mongolia Development Policy Credit Operation (2008–2009), as well as insights from the

Performance and Learning Review (PLR) of the country's Country Partnership Strategy (CPS) for the Period FY 2013-2017. (PAD, p. 26).

The Bank identified, facilitated preparation of, and appraised the operation to maximize the likelihood of achieving the planned development outcomes. This operation was strategically important to the government, considering the context of the Bank's CPF and EMSO operations, as well as the government's ERP and the IMF's EFF. The operation reflected careful consideration of technical, political, and institutional factors.

Despite these strengths, the project faced challenges related to its complexity. The TOC aimed to address Mongolia's fiscal stability, financial sector stability, and expenditure management. However, it was too broad, merging macro-fiscal management goals with sector-specific outcomes in social protection and financial regulation. This design complexity diluted focus, making it difficult to establish clear pathways from activities to measurable outcomes, and ultimately affecting full achievement of the second objective. Furthermore, there was misalignment between the broadly worded third objective and its set of interventions focused exclusively on social protection expenditure. While the results framework was well conceived, a more focused set of objectives and TOC would have better aligned activities with outcomes.

Quality-at-Entry Rating

Moderately Satisfactory

b. Quality of supervision

The Bank proactively addressed and resolved issues that could have impeded achievement of the project's development outcomes. Strong relationships between government counterparts and Bank task team leaders, component leads, subject matter specialists, and expert consultants facilitated effective implementation support and project restructurings. Implementation Status and Results Reports and Aide Memoires thoroughly documented the project's activities, challenges, and successes.

Although the project's complexity presented challenges. (due to the need to revise the PDO indicator under the second objective, shifting from NPLs to the number of financial laws submitted to Parliament), the Bank task team closely supervised implementation, leveraging a strong in-country presence. With a TTL and all component leaders based in the Bank's country office, the team maintained close engagement and effective supervision. Local oversight was bolstered by international expertise as needed, especially for Components A and B, supported by the SGM Project (ICR, p. 26, para [60]). Low Task Team Leader turnover helped to maintain continuity and fostering a hands-on supervisory approach, and allowed the team to adapt project activities in response to performance outcomes and emerging challenges (ICR, p. 25).

Quality of Supervision Rating

Satisfactory

Overall Bank Performance Rating

Moderately Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

The project's M&E framework was well-designed in relation to Objective 1. Additionally, the 2021 PEFA assessment, funded by the SGM project, provided a valuable benchmark for progress in PFM reforms supported by this project. It used the baseline data from the 2015 PEFA assessment to evaluate progress and identified areas needing further strengthening, such as budget performance, oversight of state-owned enterprises, and adoption of international accounting standards.

However, the project's M&E framework had some notable shortcomings, particularly in relation to Objectives 2 and 3. The original PDO indicator for PDO 2, based on the percentage of NPLs, proved problematic as it was impacted by macroeconomic factors beyond the project's control. For example, economic downturns, external shocks, or changes in market conditions could lead to fluctuations in NPL levels, regardless of the project's interventions, making it an unreliable measure of progress. It was replaced by an indicator measuring the submission of financial sector laws to Parliament, which did not capture the quality of impact of submitted laws, should those laws be passed.

For PDO Indicator 3, while the project surpassed its target for increasing poverty-targeted social welfare support by 108.9%, this large deviation suggests that the target-setting process may have been insufficiently ambitious. The target of MNT22.5 billion was met just a few days after the project became effective (according to ISR#3 in September 2017). This indicates that the target might not have been based on robust evidence or a realistic assessment of the project's potential impact.

Overall, the absence of well-aligned indicators for these two Objectives limited the framework's capacity to fully measure and capture progress in key areas. This gap reduced the ability to assess whether the project's broader goals, particularly in financial sector stability and social welfare, were being achieved.

b. M&E Implementation

M&E data were collected and analyzed using a methodologically sound approach. The selected data sources and methodology facilitated robust measurement of the indicators. The Project Implementation Unit (PIU) effectively managed and coordinated data collection efforts. Progress was systematically measured and reported in the Bank's Implementation Status and Results Reports. The PIU prepared semi-annual and annual monitoring and evaluation reports, along with monthly, quarterly, and annual project implementation reports. The continuity of the PIU from the prior MSTAP took advantage of established networks and facilitated efficient data collection. The ICR noted that the collected M&E data were reliable and of high quality (ICR, p. 27).

c. M&E Utilization

Both the Client and the Bank task team systematically used the collected data to monitor project progress and guide project restructuring. Each year, an annual work plan was developed based on measured progress against PDO and intermediate result indicators. However, significant shortcomings in the M&E design—particularly the lack of well-aligned, outcome-focused indicators—are likely to have limited the effectiveness of these efforts, making it more difficult to accurately track the project's impact in certain areas, such as financial sector stability and social welfare reform. Although post-project closure, authorities continue to collect data and have institutionalized many M&E practices, including integrating PFM reform activities into the Ministry of Finance's internal performance management system, the overall M&E design limitations during the project's implementation phase impacted the full potential of its utilization.

M&E Quality Rating

Modest

10. Other Issues

a. Safeguards

The project was classified as Category C, indicating minimal or no adverse environmental impacts, according to the environmental assessment. The integration of gender-responsive budgeting activities highlighted a focus on equality in fiscal decision-making. Additionally, support was given to the FRC to develop regulations for green financial products and services, informed by research on green financing markets. A project-specific Grievance Redress Mechanism (GRM) was designed and implemented in 2021, with a training consultant from the PIU overseeing its operation. An instructional note on using the GRM was developed and made available on the project website. During the implementation period, no complaints or inquiries were received.

b. Fiduciary Compliance

The project's financial management adhered to the arrangements outlined in the Legal Agreement and met the Bank's financial reporting requirements promptly. Although there were periods of uneven implementation and disbursements across different technical components, measures were taken to address these issues. Notably, efforts to accelerate implementation of Component C, including acquiring the digital payout system of DICOM, helped align spending more closely with the planned budget for that component, which had been lagging. Additionally, the project restructuring in 2021 involved reallocating funds from Components A, C, and D to Component B.

The procurement plan primarily involved low-value, low-risk contracts for individual consultants, some shopping for goods, and consulting firm contracts awarded based on consultants' qualifications. Throughout the project, a total of 485 contracts were signed, with 79 percent allocated to consultancies and 21 percent to goods and non-consulting services. The mid-term review highlighted extensive use of direct selection for individual consultancy contracts, often justified by the short-term nature of assignments, though these contracts frequently extended beyond their initial terms. The Implementation Status and Results Report from March 2023 confirmed that risks associated with low-value contracts were minimal and that overall procurement was satisfactory, although there were some delays and minor errors in recordkeeping.

c. Unintended impacts (Positive or Negative)

n/a

d. Other

n/a

11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Moderately Satisfactory	Moderately Satisfactory	
Bank Performance	Satisfactory	Moderately Satisfactory	Project complexity and mismatch between scope of third objective and its actual activities/intended outcomes
Quality of M&E	Modest	Modest	
Quality of ICR	---	Substantial	

12. Lessons

IEG agrees with the lessons outlined in the ICR (pp. 31-32). It highlights that **a well-conceived results framework is critical for ensuring the success of a project. It provides a clear structure for monitoring progress by identifying outcomes, outputs, and corresponding targets and indicators.** The project's experience highlights the importance of aligning the TOC closely with the PDO and avoiding unifying overly broad or disparate goals under a single framework. A well-defined TOC should connect activities to specific, measurable outcomes, ensuring cohesive progress toward the PDO. While the TOC aimed to address Mongolia's economic challenges by enhancing fiscal stability, financial sector stability, and social welfare expenditure management, it became too broad and convoluted. The TOC tried to merge macro-fiscal management goals with sector-specific outcomes in social protection and financial regulation, complicating the creation of clear pathways from activities to outcomes. This broad approach risked diluting focus and impact, requiring management of multiple, disparate components within a single framework. The TOC's complexity, coupled with critical assumptions such as ongoing political support, stable macroeconomic conditions, and sufficient implementing agency capacity, made it challenging to maintain a clear connection between activities and outcomes. Future projects should aim for a more focused TOC that aligns closely with the PDO and includes well-articulated pathways to enhance coherence and effectiveness. Ideally, future projects should combine both output and outcome measures in M&E frameworks to better capture the complex interplay of internal and external influences on fiscal stability.

IEG adds the following lesson: **Effective capacity building and training are essential for the successful implementation and sustainability of development projects.** The project supported the delivery of 336 training events to nearly 38,000 participants, and thereby significantly strengthened institutional capabilities. The adoption of virtual training tools during the COVID-19 pandemic not only ensured continuity but also increased reach and efficiency. Continuous monitoring and evaluation, as demonstrated by the survey showing 92 percent of participants reporting improved work performance, underscore the importance of well-designed and adaptable training programs.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR was well-structured, offering a clear overview of the project’s key objectives and achievements. It effectively outlined the project's goals and demonstrated how they aligned with the government’s ERP and the associated development partner funding, including the Bank’s EMSO and the IMF’s EFF. By connecting the project’s themes with the ERP and external support programs, the report underscored the strong degree of government ownership during the project’s inception. Additionally, the ICR provided useful context by discussing predecessor projects, which helped to frame the current project within a broader development trajectory.

The ICR also offered valuable lessons for future reform projects, particularly emphasizing the importance of well-defined and properly scoped project objectives, as well as well-articulated TOCs to ensure that project goals are realistically aligned with broader development objectives.

The ICR’s overall quality could have been strengthened by documenting the rationale for not conducting a split evaluation, especially given changes to PDO-level indicators during implementation. Including this analysis would have allowed for a more nuanced assessment of the project’s achievements against both its original and revised indicators.

a. Quality of ICR Rating

Substantial