



Technical Assistance Report

Project Number: 50094-001
Policy and Advisory Technical Assistance (PATA)
December 2016

Mongolia: Macroeconomic Advisory Support

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 8 November 2016)

Currency unit	–	togrog (MNT)
MNT1.00	=	\$0.000418
\$1.00	=	MNT 2,391.50

ABBREVIATIONS

ADB	–	Asian Development Bank
ESP	–	economic stabilization plan
FDI	–	foreign direct investment
GDP	–	gross domestic product
MOF	–	Ministry of Finance
TA	–	technical assistance

NOTE

In this report, "\$" refers to US dollars.

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POLICY AND ADVISORY TECHNICAL ASSISTANCE AT A GLANCE

1. Basic Data		Project Number: 50094-001	
Project Name	Macroeconomic Advisory Support	Department /Division	EARD/MNRM
Country	Mongolia	Executing Agency	Ministry of Finance
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Public sector management	Economic affairs management		1.00
		Total	1.00
3. Strategic Agenda	Subcomponents	Climate Change Information	
Inclusive economic growth (IEG)	Pillar 1: Economic opportunities, including jobs, created and expanded	Climate Change impact on the Project	Low
4. Drivers of Change	Components	Gender Equity and Mainstreaming	
Governance and capacity development (GCD)	Institutional systems and political economy	No gender elements (NGE)	✓
Knowledge solutions (KNS)	Public financial governance Knowledge sharing activities		
5. Poverty and SDG Targeting		Location Impact	
Geographic Targeting	No	Nation-wide	High
Household Targeting	No		
SDG Targeting	Yes		
SDG Goals	SDG8		
6. TA Category:	B		
7. Safeguard Categorization	Not Applicable		
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		1.00	
Policy and advisory technical assistance: Technical Assistance Special Fund		1.00	
Cofinancing		0.00	
None		0.00	
Counterpart		0.00	
None		0.00	
Total		1.00	
9. Effective Development Cooperation			
Use of country procurement systems			No
Use of country public financial management systems			No

I. INTRODUCTION

1. The Government of Mongolia requested technical assistance (TA) from the Asian Development Bank (ADB) for macroeconomic advisory support and crisis management to provide flexible and timely knowledge products, advisory services, and capacity development support to the government to enable it to respond effectively to emerging policy and capacity development needs associated with the implementation of Mongolia's economic stabilization plan (ESP).¹ ADB fielded a mission to Mongolia from 28 September to 7 October 2016 and reached an understanding with the government on the impact, outcome, outputs, implementation arrangements, costs, and terms of reference for consultants.² The design and monitoring framework is in Appendix 1. The TA is included in the ADB country operations business plan, 2016 for Mongolia.³

II. ISSUES

2. Mongolia's economy is characterized by limited diversification and a high dependence on the mining sector, which in turn relies heavily on foreign direct investment (FDI). This exposes the economy to external shocks, in particular swings in commodity prices and the economic cycles of its trading partners. The external environment is currently unfavorable, and characterized by falling commodity prices and growth moderation in the People's Republic of China, which are adversely affecting Mongolia's mineral production, exports, and fiscal revenue collection. This is compounded by a sharp decline in FDI—it decreased by 80% in 2014—as a result of weak investor confidence; the decline in FDI has delayed the start up of large revenue-generating mining projects.

3. Depressed FDI inflows have triggered balance of payments pressures and currency depreciation, which increased the cost of dollar-denominated debt. To meet its external financial obligations, the government consumed a large share of its foreign exchange reserves and borrowed heavily from market sources. Total public debt increased from 32.7% of gross domestic product (GDP) in 2012 to 77.4% in 2014. Currency depreciation and loose monetary policy aggravated domestic inflation, with the consumer price index reaching a peak of 15.4% in July 2013. Against this background, GDP growth declined to 7.8% in 2014 from 17.5% in 2011. The government launched expansionary fiscal and monetary policies during 2012–2013 to stimulate the economy; these failed to significantly spur growth but aggravated the macroeconomic imbalance.

4. The weakening growth momentum is continuing, and ADB estimates that GDP growth fell to a rate of 0.3% in 2015. The economic slowdown has resulted in job losses and eroded incomes, in particular among vulnerable and poor populations, which have been always disproportionately affected during crises. Government spending during the first 7 months of 2016 was 32.6% higher than in the first 7 months of 2015, while revenues were 3.1% lower, resulting in a fiscal deficit equal to 8.5% of the 2015 GDP; this significantly exceeded the 12-month 2016 deficit target, and the Fiscal Stability Law ceiling of 4%. A budget amendment and a revised fiscal framework for 2016–2018 were approved in late August 2016 by the new government amid worsening fiscal pressures, largely from off-budget expenditures, and several fiscal consolidation measures were enacted. The government nevertheless estimates that the fiscal

¹ Following the ESP implemented in 2013, the government set up a task force on 9 August 2016 to develop a new ESP to counter fiscal and external pressures, amid a continued depreciation of the togrog.

² The TA first appeared in the business opportunities section of ADB's website on 15 November 2016.

³ ADB. 2016. *Country Operations Business Plan: Mongolia, 2016*. Manila.

deficit will reach 18.2% of GDP in 2016, up from 7.9% in 2015. Public debt is projected to exceed 90.0% of GDP by the end of the year, excluding central bank liabilities.

5. The balance of payments is also under pressure. Merchandise exports fell by 9.6% year on year from January to July 2016, while imports declined by 17.0%, yielding a higher trade surplus and a narrower current account deficit. This helped trim the overall balance of payments deficit to \$46 million. Supported by newly issued external public debt, gross foreign exchange reserves were \$1.3 billion at the end of June, equal to 3.2 months of import cover. The deteriorating economic outlook accelerated currency depreciation. As of the end of August, the Mongolian togrog had depreciated by 11.2% since January.

6. The new government, in power since late June 2016, has reacted swiftly to the challenges by undertaking policy actions to address the implications of the deteriorating outlook. An amended budget containing fiscal consolidation measures has been submitted to Parliament. To arrest currency depreciation the central bank raised the policy rate by 4.5 percentage points (to 15.0%) in August. A new government action plan (the ESP) has been prepared focusing on short-term actions to address the major challenges, combined with longer-term strategies to support Mongolia's development needs.

7. A comprehensive, systematic adjustment approach is needed to build on the initial actions that have been taken. Determined policy actions are essential to contain the growing fiscal and balance of payments pressures and restore macroeconomic stability. Specifically, the government's commitment to develop its budgeting technique and debt management capacity is crucial to improve overall fiscal management. Moreover, the economic slowdown underscores the importance of strengthening social protection in Mongolia as the ESP could have a short-term contractionary effect. Reductions in the welfare budget can reverse poverty reduction gains, forcing some people who were among the non-poor into poverty, and others who were previously poor back into poverty. While consolidation of social welfare programs should be pursued, continued support to those vulnerable should not be undermined during the economic adjustment.

8. Effective macroeconomic management is essential to restore confidence in the economy. Given the increasing level of nonperforming loans, prudential standards and capital adequacy in local banks should be strengthened to maintain the soundness of the banking system. The investment climate will benefit from the implementation of reliable and predictable policies and regulations on foreign investments. If properly managed, FDI inflows and mineral resources will support Mongolia's long-term growth potential.

9. Mongolia's long-term economic prospects remain promising, given the abundant resource wealth and untapped potential in the agriculture sector. While economic reforms under the ESP starting next year are primarily designed to stabilize the macroeconomic situation, these will lay the foundation for effective mining revenue management in the medium term. ADB's TA will support the government's efforts to strengthen its policy. The crisis provides opportunities for the country to establish a solid linkage between its resource wealth and economic prosperity through more effective macroeconomic management. In this context, timely economic policy advice and capacity development for crisis management at key government agencies are essential. This is to build on ADB's substantial past engagement in the provision of policy advice and capacity building support.

III. THE POLICY AND ADVISORY TECHNICAL ASSISTANCE

A. Impact and Outcome

10. The impact will be economic policy formulation enhanced and effective implementation of the ESP accomplished. The outcome will be core policies supported under the TA adopted and implemented by government agencies.

B. Methodology and Key Activities

11. The TA facility design provides a flexible framework that allows some subprojects to be selected during TA implementation. This flexibility will enable the Ministry of Finance (MOF) and ADB to respond to emerging development issues and supplement other ADB operations (nonlending and lending products) in a timely manner. ADB can respond to the government's emerging needs through frequent consultation and the use of flexible mechanisms to govern proposal submission and consideration. Subprojects will be selected jointly by the government and ADB. The criteria for prioritizing policy-related subprojects include that the subproject (i) supports priority government policy reforms and is consistent with the Mongolia interim country partnership strategy for 2014–2016, as well as the country partnership strategy that is under preparation;⁴ (ii) is related to the implementation of the government action plan and the ESP, particularly in the areas that concern key development constraints; (iii) is considered an emerging, urgent, and high-priority issue where ADB has considerable potential to add value; and (iv) shows evidence of strong government ownership, such that a small amount of strategic ADB assistance will help advance or realize important reforms and/or leverage the outcome and impact of existing projects.

12. Priority will also be given to capacity development subprojects that support cooperation between the Government of Mongolia and ADB in solving key development constraints to restore macroeconomic stability and protect the poor and vulnerable from the impact of the crisis and the ESP. Activities will be divided into two categories—policy advice and capacity development—overseen by MOF, in close consultation and coordination with the implementing agencies, ADB, and stakeholders to maximize synergies and minimize overlaps. Agreement has been reached on seven subprojects, as outlined in Supplementary Appendix A (available on request).

13. **Output 1: Core policy issues addressed and recommendations made.** The TA subprojects will provide government agencies with advisory services based on agreement between MOF and ADB on priority development issues in different sectors and subjects, including (i) implementation of the ESP, (ii) macroeconomic stability, (iii) fiscal consolidation, (iv) social sector reform, and (v) other priority sectors as agreed jointly by the government and ADB. Activities will include organizing conferences, seminars, and workshops on international best practices in core reform area. The indicative allotment for this output category is \$700,000.

14. **Output 2: Capacity development training opportunities for work-level staff provided.** The TA subprojects will strengthen the development and management capacity of government agencies through organizational diagnostics, capacity assessments, training programs, workshops, conferences, and knowledge management interventions. The indicative allotment for this output category is \$300,000. Specific projects under this component will be decided through joint consultations between MOF and ADB.

⁴ ADB. 2012. *Country Partnership Strategy: Mongolia, 2012–2016*. Manila.

C. Cost and Financing

15. The TA is estimated to cost \$1,100,000, of which \$1,000,000 will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF-V). The government will provide counterpart support in the form of counterpart staff remuneration, office accommodation, logistics and administrative support, and other in-kind contributions. Subprojects will be subject to a maximum of \$150,000 each, unless this ceiling is waived by MOF and ADB.

D. Implementation Arrangements

16. TA support for workshops may include costs related to the venue, equipment rental, translation, printing and copying, food and nonalcoholic beverages, transportation, lodging, logistics and administrative support, and other agreed expenditures with prior written approval from ADB. Disbursements under the TA will be in accordance with ADB's *Technical Assistance Disbursement Handbook* (2010, as amended from time to time). Subprojects may also fund surveys, field investigations, and the purchase of required resource materials, based on cost estimates agreed by ADB. In line with standard ADB procedures, the TA will not support implementing agencies' management fees, overhead, or related costs such as staff salaries and allowances, or the use of implementing agencies' resources (such as office accommodation), which will be provided as part of the counterpart contribution.

17. MOF will be the executing agency with responsibility for oversight and coordination of subproject activities, to ensure strong coordination with other government agencies. The TA will be implemented for 25 months from 1 December 2016 to 31 December 2018. ADB will assist the executing agency in overall TA operations, and TA review missions will be conducted to help monitor progress.

18. The TA will engage experts whose inputs will be equivalent to 20 person-months of international consultants and 20 person-months of national consultants, and 15 resource persons engaged for workshops and seminars. Consultants will be recruited individually following ADB Guidelines on the Use of Consultants (2013, as amended from time to time). ADB will endorse the required expertise and terms of reference, including duration and expected results, at the time of joint identification of subprojects or during implementation. Detailed terms of reference for the individual consultants will be further developed in close consultation with MOF, the implementing agencies, and ADB staff. The terms of reference are in Appendix 3. All procurement under the TA will be carried out in accordance with ADB Procurement Guidelines (2015, as amended from time to time). To speed up implementation, ADB may establish an advance facility for MOF and the implementing agencies, as needed, and/or utilize direct payment (e.g., for workshop venues).

19. The TA will be monitored regularly by the ADB Mongolia Resident Mission and through joint reviews of TA activities with the government during the implementation period. TA outputs will be shared with core government agencies and disseminated to a wider audience, including donor partners and civil society through workshops and seminars during TA implementation.

IV. THE PRESIDENT'S DECISION

20. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$1,000,000 on a grant basis to the Government of Mongolia for Macroeconomic Advisory Support, and hereby reports this action to the Board.

DESIGN AND MONITORING FRAMEWORK

Impacts the TA is Aligned with			
Economic policy formulation enhanced and effective implementation of the emergency stabilization plan accomplished. (Emergency Stabilization Plan. 2013 and forthcoming 2017. Government of Mongolia)			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
Outcome Core policies supported under the TA adopted and implemented	At least three core policies supported under the TA adopted and implemented by government agencies by 2018 (2016 baseline: 0)	Government annual budgets, policy pronouncement, and documents on policy direction Media reports, feedback by other donors ADB internal reports and documents	Reforms proposed by government agencies may not receive political support
Outputs 1. Core policy issues assessed and recommendations made 2. Capacity development training opportunities for work level staff provided	1a. All advisory services (three by 2018) provided by 2018 (2016 baseline: 0) 1b. Conference, workshops, and seminars conducted (two by 2018) and results effectively disseminated by 2018 (2016 baseline: 0) 2. Training materials prepared, and training courses (two by 2018) implemented by 2018 (2016 baseline: 0)	Periodic TA progress reports Accomplishment reports from experts who work for subprojects Minutes of meetings between the government and ADB Memorandums of understanding signed between the government and ADB for additional subprojects	Limited ownership of subprojects by government agencies Limited access to data and information needed for government agencies to assess high-priority needs
Key Activities with Milestones Output 1: Core policy issues assessed and recommendations made 1.1 Provide advisory services based on the agreement between MOF and ADB by 2018. 1.2 Organize conferences, seminars, and workshops on international best practices in core reform areas by 2018. Output 2: Capacity development training opportunities for work-level staff provided 2.1 Prepare training materials and implement training courses by 2018.			
Inputs ADB: \$1,000,000 grant Note: The government will provide counterpart support in the form of counterpart staff remuneration, office accommodation, logistics and administrative support, and other in-kind contributions.			
Assumptions for Partner Financing Not Applicable			

ADB = Asian Development Bank, MOF = Ministry of Finance, TA = technical assistance.
 Source: Asian Development Bank.

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Amount
Asian Development Bank^a	
1. Consultants	
a. Remuneration and per diem	
i. International consultants	450.0
ii. National consultants	100.0
b. International and local travel	150.0
c. Reports and communications	30.0
2. Training, seminars, and conferences ^b	150.0
3. Miscellaneous administration and support costs ^c	20.0
4. Contingencies	100.0
Total	1,000.0

Note: The technical assistance (TA) is estimated to cost \$1,100,000, of which contributions from the Asian Development Bank (ADB) are presented in the table above. The government will provide counterpart support in the form of counterpart staff remuneration, office accommodation, logistics and administrative support, and other in-kind contributions. The value of the government's contribution is estimated to account for 9% of the total TA cost.

^a Financed by the ADB Technical Assistance Special Fund (TASF-V).

^b Includes costs for the arrangement of venues, equipment rental, translation, printing and copying, food and nonalcoholic beverages, transportation, lodging, logistics and administrative support, and other agreed expenditures with prior written approval from ADB.

^c Includes costs for the translation of any relevant background material for the TA, subject to prior ADB approval. Insurance cost for conference participants and interpretation costs can be charged under this category.

Source: ADB estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

1. The policy and advisory technical assistance (TA) will use an estimated 20 person-months of international consultants, 20 person-months of national consultants, and 15 resource persons for workshops and seminars. Highly qualified and specialized technical experts will be required, with knowledge and experience relevant to the subprojects financed. Therefore, experts with specific relevant experience will be recruited as individual consultants. Detailed terms of reference for the individual consultants will be developed in close coordination with the government agencies—Ministry of Finance (MOF), Bank of Mongolia, and Financial Regulatory Commission—and the Asian Development Bank (ADB). The nature of the needed expertise and inputs will be determined for each subproject and approved jointly by an implementing agency and ADB.

2. ADB will recruit consultants in accordance with its Guidelines on the Use of Consultants (2013, as amended from time to time) and arrangements satisfactory to ADB. Lump-sum payments and output-based contracts will be considered under the TA when applicable. The implementing agencies will be responsible for proposing terms of reference to ADB. The consultants and resource persons may be independent consultants; recruited from consulting firms, research institutes, think tanks, academic institutions, or government research arms; or be government officials from other ADB developing member countries.

A. Short-Term Resource Persons

3. Short-term resource persons or experts will be selected based on discussion between an implementing agency and ADB, and include

- (i) facilitators for conferences, seminars, workshops, and training courses;
- (ii) researchers commissioned to present relevant policy topics and/or act as discussants in conferences, seminars, and workshops; and
- (iii) government officials from developing member countries to present country experience on relevant topics.

B. Indicative Responsibilities of Consultants

4. The implementing agencies will take overall responsibility for ensuring coordination, quality, and timeliness of output delivery; and providing one staff member to act as a focal point to provide inputs throughout the subproject. Consultants and resource persons will report to and work under the guidance of the implementing agencies and ADB, and will provide the inputs outlined below and any other tasks requested by ADB. For each subproject, a progress report will analyze issues encountered and propose next steps, including updated work plans detailing inputs of the implementing agencies and external experts.

1. Consultants for Advisory Subprojects

5. The indicative tasks for advisory subprojects will include helping the implementing agency to perform the following:

- (i) Identify and/or refine the topical coverage, content, and/or methodology and related activities.
- (ii) Design, contribute to, and/or act as facilitators for activities, including workshops.
- (iii) Provide research and analytical inputs (e.g., background research, policy papers, and workshop presentations), with an emphasis on quality and relevance.

- (iv) Work with the implementing agency and experts to define challenges and recommendations for policy, institutional, and/or legislative reforms; and/or effective operating mechanisms. International experts, in particular, should provide advice and other inputs on reform frameworks and processes based on international comparative analysis and evidence, for incorporation into group work, policy forums and other activities, and final recommendations.
- (v) Contribute directly to policy dialogue and support dissemination to key government decision makers and other stakeholders.

2. Consultants for Capacity Development Subprojects

6. The indicative tasks for capacity development subprojects will include helping the implementing agency to perform the following:
- (i) Identify and/or refine the topical coverage, content, and/or methodology of the program and related activities.
 - (ii) Design, contribute to, and/or act as facilitators for activities such as training workshops, and provide support for follow-up and hands-on practicum activities, on-demand counseling, and development of capacity building materials. International experts, in particular, should provide advice relating to and support adoption of best practice international capacity development models and techniques.
 - (iii) Develop materials to support capacity development, including the introduction of international best practice with relevance to the country context. To ensure efficacy, materials should emphasize applied competencies and the use of participatory, active learning approaches, ranging from participatory face-to-face training to learning by doing.

C. Indicative Terms of Reference for Subproject Experts

1. Consultants for Advisory Subprojects

7. Indicative tasks of consultants engaged for advisory subprojects include
- (i) assisting the implementing agency to assess and prioritize policy issues, focusing on consistency with the economic stabilization plan;
 - (ii) undertaking specific research, as required in the specific terms of reference prepared by implementing agencies and endorsed by the implementing agency and ADB;
 - (iii) providing practical recommendations on the government's immediate policy options, taking into consideration information from the experience-sharing and best-practice dissemination activities;
 - (iv) preparing study reports and policy briefs in the format required by the TA (e.g., policy research studies, policy notes, project implementation assessments, good practice studies, and sector and thematic reports); and
 - (v) preparing background information and documents for the meetings between the implementing agency and ADB, and providing assistance, as requested, to the implementing agency.

2. Consultants for Capacity Development Subprojects

8. Indicative tasks of consultants engaged for capacity development subprojects will be based on a detailed work plan agreed between the implementing agency and ADB. The

consultants will focus on designing and implementing a systematic strategy for continuous capacity development. Tasks will include

- (i) proposing to the implementing agency a capacity development framework that ensures that programs include active learning; experience-based methodologies that involve case studies and follow-up tasks; and multiple tools, including face-to-face training and print-based resources;
- (ii) determining the key proponents, and designing and conducting training to support capacity development for the implementing agency; and
- (iii) proposing and organizing seminars, workshops, focus groups, training, and other knowledge-sharing meetings, as needed.