

VII. Donor Assistance

This chapter describes donor coordination mechanisms and discusses donor activities in relation to financial management and governance arrangements. It is structured as follows:

- 1 – Overview
- 2 – Coordination Mechanisms
- 3 – Asian Development Bank
- 4 – International Monetary Fund (IMF)
- 5 – The World Bank
- 6 – United Nations (UNDP)
- 7 – Australia (AusAID)
- 8 – Japan (JICA)
- 9 – European Union (EU-TACIS)
- 10 – Germany (GTZ)

1. Overview

Table 7: Overall External Assistance to Mongolia³⁶

External Source (US\$ million)	1994 – 1998 (Commitments)		1999 Program	
	Loan/ Credit	TA	Loan/Credit	TA
Multilateral				
ADB	274.7	29.4	76.0	8.0
IBRD	108.7	..	52.0	..
IMF	48.0	..	17.0	..
EU-TACIS	..	14.3	..	5.3
UNDP	..	14.6	..	4.3
UNFPA	..	..	..	2.5
IFAD	5.1	..	..	..
Bilateral				
France	..	5.9	..	0.1
Germany	45.1	9.5	..	9.3
Japan	46.0	4.4	115.0	..
South Korea	8.0	0.5	11.8	..
United States	..	66.8	..	16.0
Others	..	..	..	3.4

³⁶ Asian Development Bank. December 1999. *Country Assistance Plan (2000-2002): Mongolia*. p. 18.

DONOR ASSISTANCE

Mongolia receives the highest per capita level of external assistance of the seven countries participating in RETA-5877 (Table 8 refers).

Table 8: Official Development Assistance³⁷

	Cambodia	People's Republic of China	Mongolia	Pakistan	Papua New Guinea	Uzbek - istan	Viet Nam
Dollars per capita	36	2	99	5	78	6	13
Percentage of GNP	12.1	0.2	26.7	1.0	7.8	0.5	4.1

2. Coordination Mechanisms

ADB has taken a lead coordination role in several key sectors including education, health, finance, roads, telecommunications, power, air navigation, and housing. Among its activities, ADB has financed the preparation of several sectoral master plans that provide frameworks within which to coordinate projects proposed for external assistance. The UNDP is active in local donor coordination and sponsors a monthly meeting of representatives from the Government and the donor community. The development of the Public Investment Program (PIP) will further assist in donor coordination and aid-prioritization efforts.³⁸

3. Asian Development Bank

Since Mongolia joined ADB in 1991, ADB operations have grown steadily in terms of volume and the number of sectors covered. ADB is the second largest donor after Japan. By December 1999, ADB had approved 21 loans, amounting to \$427.5 million. Lending operations were dominated by program loans (32 percent). At the same time, ADB had approved 89 technical assistance (TA) grants totaling \$45.3 million.³⁹

Despite economic uncertainty, fiscal constraints, and institutional weaknesses in all sectors, ADB's portfolio is in general performing satisfactorily and implementation is proceeding on schedule. As of 31

³⁷ Data is for 1997 and is sourced from: World Bank. 2000. *World Development Report 2000*.

³⁸ Financed by ADB TA. No. 3317-MON: *Public Expenditure Management*. \$496,000, approved in December 1999.

³⁹ Asian Development Bank. December 1999. *Country Assistance Plan (2000-2002): Mongolia*. pp 4-5.

December 1999, audited accounts were due for 10 loans of which nine had complied and one had not yet complied.⁴⁰

Loan Projects

Three program loans are directly related to supporting improved financial management and governance arrangements. First, the *Financial Sector Program Loan I*⁴¹ supported strengthening of the banking system, including the legal and regulatory framework. Second, the *Financial Sector Program Loan II*⁴² is intended to further strengthen governance arrangements in the sector – including further attention to legal and regulatory deficiencies. Finally, the *Governance Reform Program Loan* is intended to support the Government's intention to pilot administrative reforms, including the adoption of IAS-based accounting, in five government agencies.⁴³

In addition to these loans, technical assistance is often provided alongside loans to strengthen financial management within executing agencies.⁴⁴

Technical Assistance

Along with the assistance provided to executing agencies to strengthen their financial management capacity, assistance has been provided to coordinating agencies to improve their loan administration and accounting procedures (in relation to ADB projects).⁴⁵ The major initiatives that ADB has supported, or is supporting, are as follows:

TA No. 2390-MON: Improving Accounting and Auditing Systems

This TA for \$600,000 was approved in September 1995 and was conducted from March 1996 to May 1997. TA activities included:

⁴⁰ Asian Development Bank. March 2000. *Semi-Annual Report on Loan and Technical Assistance Portfolio Performance for the Period Ending 31 December 1999*. pp. 64-65.

⁴¹ Loan 1509-MON: *Financial Sector Program*, for \$35 million, approved on 16 December 1996.

⁴² *Financial Sector Program II*, for \$15 million.

⁴³ Loan 1713-MON: *Governance Reform Program*, for \$25 million, approved on 2 December 1999.

⁴⁴ See, for instance, TA. No. 2571-MON: *CES Accounting and Financial Management Systems Improvement*. \$550,000, approved in May 1996.

⁴⁵ See, for instance, TA No. 2993-MON: *Capacity Building in Project Accounting*, for \$150,000, approved in March 1998.

preparation of a training manual for accountants (117 pages), preparation of an auditing manual for Mongolia (143 pages), development of a draft audit law, assistance to establish the critical mass of a national accounting profession (articles of association, by-laws, and code of ethics), and development and delivery of a training program (three seminars) on financial accounting, managerial accounting, and accounts conversion (all based around a case study). Additional courses on accounting information systems and auditing were also developed and delivered.

TA No. 2931-MON: Program Preparation for Governance Reforms

This TA for \$967,000 was approved in December 1997 and was conducted from April 1998 to September 1999. The technical assistance provided under the contract had three aspects: assisting the Government to prepare the inputs for a possible program loan on governance reforms, assisting in the development, refinement and communication of the draft legislation (the Public Sector Management and Finance Law (PSMFL), and supporting the groundwork for the implementation of the reforms arising from the enactment of the PSMFL. With respect to the third aspect, this involved developing accounting policies and accounting guidelines for the public sector based upon IAS and International Public Sector Accounting Standards (IPSASs). It also involved assisting five pilot agencies to prepare annual financial statements based on these financial policies.

TA No. 2964-MON: Improving Accounting and Auditing Systems II

This TA for \$688,000 was approved in December 1997 and conducted from March 1998 to March 2000. TA activities included:

- preparing 34 accountants for international standard CPA examinations and conducting these examinations (18 candidates passed the examinations),
- providing 850 accountancy textbooks in Russian and Mongolian, and
- assisting MICPA. Supporting activities involved: (i) developing policies, rules, and regulations on the preparation, administration, and grading of CPA examinations; (ii) conducting a study tour for accounting personnel to examine Asian professional organizations; and (iii) developing accountants' knowledge of, and familiarity with, the application of IAS and auditing practices, to banks and financial institutions.

TA No. 3316-MON: Initial Phase of Public Administration Reform

This TA for \$700,000 was approved in December 1999. Its broad objectives are to move five pilot agencies to output-based budgeting. As part of this process, accrual based financial reporting will be entrenched in the five organizations.

4. International Monetary Fund (IMF)

Mongolia joined the Fund in 1991 under Article VIII and is on the standard 12-month cycle for Article IV consultations. The Fund has provided three Technical Assistancess on public expenditure management, which did not directly involve accounting or auditing.

5. The World Bank

Mongolia became a member of the World Bank, the International Development Agency, and International Finance Corporation in February 1991. The World Bank approved a Fiscal TA project of \$5 million in June 1998, which was ratified by the Mongolian Parliament in January 1999. The intention of this project is to support the development of an efficient and transparent government financial management system, and the introduction of a value-added tax to strengthen the government's revenue base. The Fiscal TA provides funding for: (i) computerized government financial management information systems (including debt, cash, treasury management, whole-of-government consolidation, and organizational accounting); (ii) training in management development; (iii) training in accrual accounting and budgeting; and (iv) developing attest auditing capacity.

An earlier project, the *Accounting Development Project*, was implemented from July 1993 to September 1994. The project involved: (i) converting the accounting systems of three State-owned enterprises (including the Trade & Development Bank) to IAS; (ii) developing a strategic plan for improving accounting and auditing system; (iii) updating the accounting curricula for universities; and (iv) providing training in financial and management accounting for accountants of major SOE and tertiary institutions.

6. United Nations (UNDP)

The UNDP is involved in financial governance issues through its Program for Accountability and Transparency (PACT). The *Accounting Training Project* [\$76,000; 1999/2000] has involved the development and delivery of a training program to finance staff in government organizations (focusing on the requirements of the new public administration system).

7. Australia (AusAID)

Australia is providing support to the State Audit Board in association with the ADB-supported governance reform program. The support involves provision of auditors from the Victorian Auditor-General's Office to the State Audit Board. The Australian auditors are working alongside the SAB auditors to review the financial statements that have been prepared for the five pilot agencies.

8. Japan (JICA)

Japan is supporting the implementation of a Public Investment Program (PIP) Budgeting Process in MOFE through the provision of consulting advice and training (September 1998 to March 2001).

9. European Union (EU-TACIS)

Strengthening of the Academy of Management (AOM) 800,000; May 1999 - November 2000. The aim of this project is to improve the effectiveness and efficiency of public administration through provision of short- and long-term training of public administrators. The curriculum includes modules on financial management.

10. Germany (GTZ)

Germany is providing support to the State Audit Board through a project titled *Institutional Strengthening of the State Audit Board (SAB)* [DM3 million; April 1998 to March 2001]. The project aims to improve state auditing (methodologies and technical skills) by providing equipment, training and short-term experts. The project involves training (seminars and study tours) staff from the SAB, MOFE and AOM.