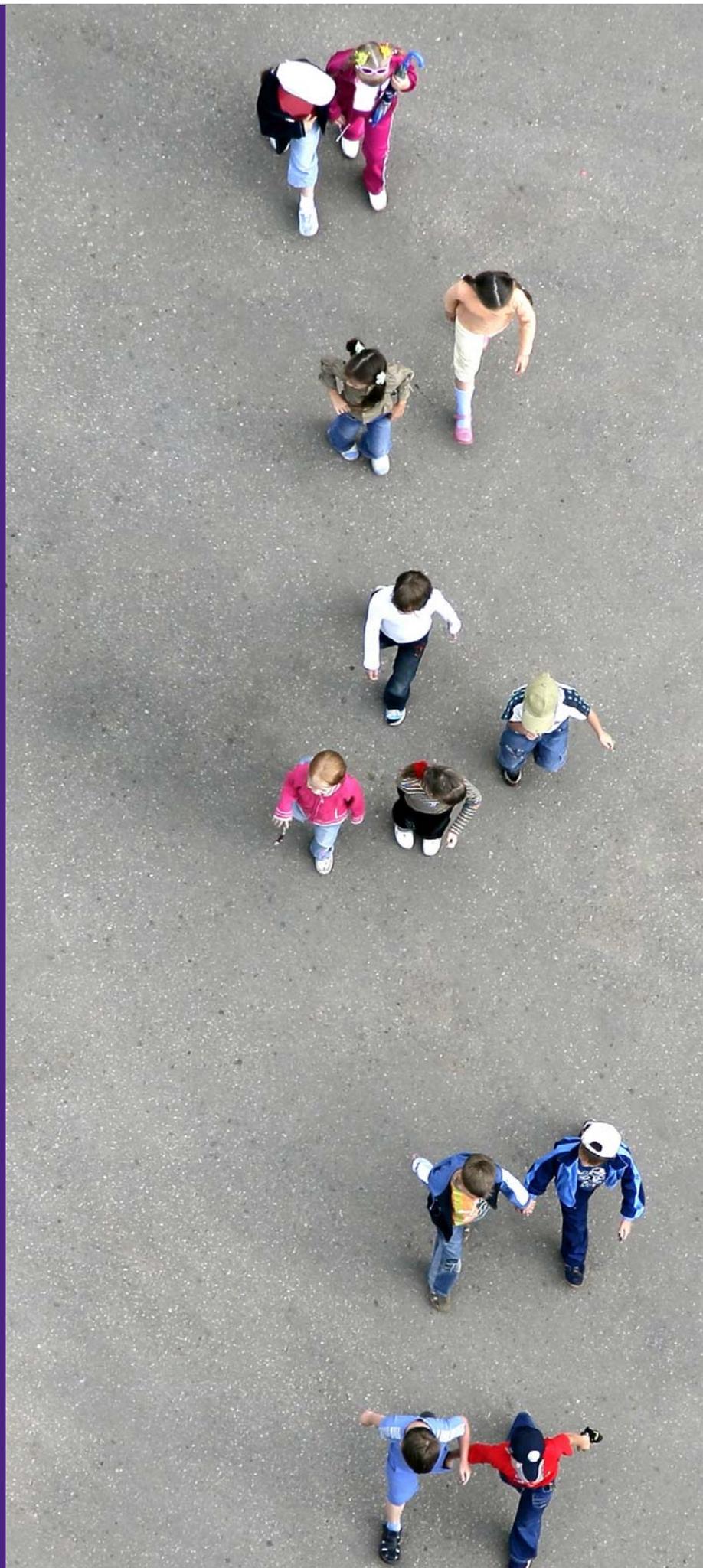




# Macro Assessment- Mongolia

Prepared for the UNICEF, UNDP  
and UNFPA in Mongolia

11 October 2017  
Draft



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## Abbreviations and Acronyms

<b>HACT</b>	Harmonized Approach to Cash Transfers
<b>PFM</b>	Public Financial Management
<b>IP</b>	Implementing Partner
<b>UN</b>	United Nations
<b>UNDP</b>	United Nations Development Programme
<b>UNICEF</b>	United Nations Children’s Fund
<b>UNEP</b>	United Nations Environment Programme
<b>UNFPA</b>	United Nations Fund for Population Activities
<b>EFF</b>	Extended Fund Facility
<b>IMF</b>	International Monetary Fund
<b>SAI</b>	Supreme Audit Institution
<b>MNAO</b>	Mongolian National Audit Office
<b>DBM</b>	Development Bank of Mongolia
<b>TSA</b>	Treasury Single Account
<b>PEFA</b>	Public Expenditure and Financial Accountability Assessment
<b>LTAS</b>	Long Term Agreement for Services
<b>KPMG LLP</b>	KPMG International member firm located in the United States
<b>KPMG Mongolia</b>	KPMG International member firm located in Mongolia

# Executive Summary

This Macro Assessment for Mongolia was prepared in accordance with the corresponding Terms of Reference included in the Long Term Agreement for Services (LTAS - 42105423) between KPMG and the United Nations Children’s Fund (UNICEF).

## Objective and Scope of the Macro Assessment

The Macro Assessment is performed to support adequate awareness of the public financial management (PFM) environment in which the UNICEF, UNDP and UNFPA (Agencies) provide cash transfers to Implementing Partners (IPs). The term ‘PFM’ in the harmonized approach to cash transfers (HACT) framework is broadly defined to include a range of considerations for operating within the country; it is not limited solely to the financial environment, but also includes national procurement capacity, exchange rate volatility, and presence of informal/black markets.

The Macro Assessment represents a desk review of publicly available PFM assessments and reports. No original PFM assessment procedures were performed for this Macro Assessment.

The two primary outputs of the Macro Assessment comprise:

1. **Outlining Risks to use of PFM for cash transfers:** An outline of the risks related to use of the PFM for cash transfers within the country by governmental IPs, as well as other country-specific knowledge for non-governmental IPs; and
2. **Determining Capacity of Supreme Audit Institution:** A determination on whether the government’s Supreme Audit Institution (SAI) has the capacity to undertake scheduled and special audits of government IPs.

## Results

The following provides details of the two primary outputs of the Macro Assessment:

**Risks:** The following table provides a summary of the risks identified during the Macro Assessment:

No.	Indicator	Risk Rating
1	The annual budget contains all significant government expenditures	Low
2	Budget and performance	Low
3	Budget execution	High
4	To what extent are internal controls and financial procedures adhered to?	Moderate
5	Bank reconciliations	Low
6	Transfer of cash resources	Moderate
7	Reporting of cash and asset position to government	Low
8	Financial audit / SAI auditor general	Low
9	SAI independence	High
10	Audit standards applied by the SAI	Low
11	Follow-up action to audit reports	Significant
12	Country has a national procurement framework	Low
13	Transparency of audit process	Moderate
14	Staff qualifications and skills	Significant
15	Financial systems	Moderate
16	Environmental conditions	High
17	Exchange rate volatility	High
18	Existence of a black market	Significant
19	Public Debt	Moderate

The Macro Assessment does not conclude with one overall risk rating. Instead, the Macro Assessment provides the risks associated with a broad range of topics that can be utilized by agencies in consideration of its country operations and the programs implemented by its IPs.

**Supreme Audit Institution:**

The capabilities of the SAI is considered in indicators 9 – 11, which resulted in High, Low and Significant risks, respectfully. It was observed in indicator 9 that the SAI is not an independent body, which presents a high level of risk in the SAI's ability and capacity to undertake HACT related scheduled and special audits of government IPs. The UN Agency engaging a government IP should discuss the HACT related audits requirements with the SAI to determine whether a lack of independence would impact their ability to complete the audit services.

Refer to further details of the Macro Assessment provided in Annex 1 & 2 below

## Annex 1. Macro Assessment Checklist

### General Overview of Macro Assessment

<b>Country being macro assessed</b>	Mongolia
<b>Agencies utilizing HACT framework in country</b>	United Nations Children's Fund (UNICEF) United Nations Development Programme (UNDP) United Nations Population Fund (UNFPA)
<b>Agency contact person(s)</b>	Paula Morais <pmorais@unicef.org> Lucia Simao <lucia.simao@undp.org> George Bento <bento@unfpa.org>
<b>Start/end date of macro assessment (dd/mm/yyyy – dd/mm/yyyy)</b>	24/08/2017 – 07/09/2017
<b>Has a macro assessment been performed for this country previously (by any organization)?</b>	In October 2013 by KOSI
<b>Member(s) of the macro assessment team (Name, designation, section/organization)</b>	The macro assessment was conducted by KPMG Mongolia and reviewed by KPMG LLP <sup>1</sup> . The team members included: <b>KPMG Mongolia:</b> Mark Eberst, Partner Joo Ho Lee, Director  <b>KPMG LLP:</b> Mark Fitzgerald, Principal Audie McRae, Manager Motwani Nicholas, Senior Associate
<b>Sources of information used in assessment (title, date published, source, etc.)</b>	See Appendix A

A risk consideration checklist is provided in Annex 2.

<sup>1</sup> KPMG in the United States is KPMG LLP (US), a U.S. limited liability partnership and member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative; KPMG Mongolia, the member firm affiliated with KPMG International located in Mongolia. References to KPMG are to KPMG in the United States or KPMG in Mongolia as the context requires.

## Annex 2. Risk consideration checklist

		Risk Consideration					
No.	Indicator	High risk	Significant risk	Moderate risk	Low risk	Indicator risk level	Comment
1	<b>The annual budget contains all significant government expenditures, including relevant donor contributions</b>	No			Yes	<b>Low</b>	<p>According to the IMF, the annual budget includes all government expenditures, including extra budgetary financing.</p> <p>Extra-budgetary financing, such as the finances raised by Development Bank of Mongolia (DBM) and Bank of Mongolia, has been included into the annual budget since 2017.</p> <p>DBM's commercial spending remains unconsolidated but will be included in the fiscal targets per the IMF's recommendation. (Appendix A, Item 1; Item 5). <i>pg 31 of item 1; pg 11 of item 5</i></p> <p>IMF's recommendations were to be implemented to be in compliance with EFF funding arrangement IMF was to provide for Mongolia. However, recently the IMF announced that it will delay</p>

No.	Indicator	Risk Consideration				Indicator risk level	Comment
		High risk	Significant risk	Moderate risk	Low risk		
							<p>disbursing EFF funds to Mongolia after the country's prime minister and Cabinet were toppled in a parliamentary no-confidence vote on September 7, 2017. According to a Reuters article, the IMF office in Mongolia confirmed that what would have been the first review of the EFF package would now be delayed until a new administration is formed.</p> <p>(Appendix A, Item 19)</p>
2	<b>Budget and performance</b>	Budget decisions are only nominally debated. Little consideration of previous performance is taken into account when setting future budgets.			Budget decisions are fully debated with assistance from expert committees. Full consideration of previous performance is taken into account when setting future budgets.	<b>Low</b>	<p>As per the 2015 PEFA report, budget decisions appear to be fully debated with assistance from Budget Standing Committee.</p> <p>The parliament has approximately six weeks to approve the budget where debates are normally involved. (The Government is required to submit the next year's budget to the parliament by October 1st and the parliament has to approve the budget by November 15th.)</p>

No.	Indicator	Risk Consideration				Indicator risk level	Comment
		High risk	Significant risk	Moderate risk	Low risk		
							It is not clear if the previous year's performance is considered when setting future budgets. However, the annual budget submitted to the parliament includes actual performance for previous five years in addition to the current year approved/amended budget estimates. (Appendix A, Item 1). <i>pg 31;71</i>
<b>3</b>	<b>Budget execution</b>	Government historically does not execute budgets as planned.	Government historically executes budgets as planned, but there are significant exceptions.	Government historically executes budgets as planned with limited exceptions.	Government historically executes budgets as planned without exceptions.	<b>High</b>	The Government of Mongolia historically could not execute budgets as planned due to overestimations in its revenues during the initial budgeting process.  From years 2012 to 2014, original budgeted spending had to be repeatedly reduced due to over budgeted revenues, with budget revenue shortages averaging 17 percent of the initial budgeted revenues during the same periods.  (Appendix A, Item 2). <i>pg 15</i>

No.	Indicator	Risk Consideration				Indicator risk level	Comment
		High risk	Significant risk	Moderate risk	Low risk		
							<p>While no publicly available PFM assessment and/or report has been identified that addresses the shortage, the expenditure continued to be lower than the budgeted in 2015. The executed expenditure in 2016 exceeded the initial budgeted amount by 19.4% due to unbudgeted spending programs and loose spending controls in time for the national election.</p> <p>Based on the information above, the indicator has been assessed as High.</p>
4	<b>To what extent are internal controls and financial procedures adhered to?</b>	Procedures are frequently over-ridden or ignored. Emergency procedures are routinely used.	Procedures are generally followed, but there are significant exceptions. Doubt exists as to whether or not the internal control system can be relied upon.	Procedures are generally followed. While exceptions exist, they are not frequent enough to prevent reliance on the internal control system.	Procedures are always followed.	<b>Moderate</b>	<p>Internal controls and financial procedures are comprehensive and enforced.</p> <p>While there are exceptions, they are not frequent enough to prevent reliance on the internal control system. The internal control rules and procedures are well understood and implemented.</p>

No.	Indicator	Risk Consideration				Indicator risk level	Comment
		High risk	Significant risk	Moderate risk	Low risk		
							(Appendix A, Item 1). <i>pg 58-59</i>
5	<b>Bank reconciliations</b>	Many accounts are not reconciled monthly. Reconciliations are often poorly performed.	A number of significant accounts are not reconciled monthly. Quality is sometimes poor.	Generally banks are properly reconciled each month. Exceptions exist but appropriate follow-up action is taken in all cases.	Performed to a high standard for all bank accounts at least once a month.	<b>Moderate</b>	<p>Per the 2015 PEFA report, Bank account reconciliations for the Treasury Single Account (TSA) and for the accounts held in commercial banks are done on a daily basis between the Treasury department and the Central Bank.</p> <p>TSA accounts for all government transactions except extra-budgetary funds, which accounted for 19.7% of total government expenditure in 2013. (Appendix A, Item 1). <i>pg 11, 17, 62</i></p> <p>As described in indicator #3, Mongolia has historically experienced issues with extra-budgetary spending, and a lack of TSA oversight over these funds should be taken into consideration. While the majority of government transactions are reconciled efficiently, the extra budgetary funds appear</p>

No.	Indicator	Risk Consideration				Indicator risk level	Comment
		High risk	Significant risk	Moderate risk	Low risk		
							to account for significant portion of government transactions. As such, we have set the overall risk as Moderate.
<b>6</b>	<b>Transfer of cash resources</b>	Cash transfers from central/regional levels to project level take more than one month.	Cash transfers from central/regional levels to project level take two to four weeks.	Cash transfers from central/regional levels to project level take one to two weeks.	Cash transfers from central/regional levels to project level take a week or less.	<b>High</b>	<p>Assessment of the duration for the transfer of funds from the central government to the municipalities and provinces/districts was not readily available.</p> <p>However, according to order No.415 by the Minister of Finance, dated December 22, 2016, the Ministry of Finance (MoF) is fully in charge of cash transfers from central/regional levels to project level. The cash should be transferred within four working days from MoF to central/regional government levels after reviewing processes by the MoF (the reviewing process, according to local information, generally takes more than one month). Central/regional government then has an obligation to transfer cash resources within three working days to</p>

No.	Indicator	Risk Consideration				Indicator risk level	Comment
		High risk	Significant risk	Moderate risk	Low risk		
							<p>the project level (executing unit).</p> <p>(Appendix A, Item 12). <i>article 4.14 and 4.16</i></p> <p>As the total number of days required should be seven working days according to the 415<sup>th</sup> order, due to the timing of the review process adding more days, we have set the risk level as high.</p>
7	<b>Reporting of cash and asset position to government</b>	Analysis of cash and asset position made to government contains significant omissions.			Full analysis of cash and asset position is made to government.	<b>Low</b>	<p>There is a full analysis of cash and asset position made available to the government.</p> <p>Consolidated financial statements for the Government of Mongolia are prepared biannually. The consolidated financial statements include both central and subnational entities. The consolidation includes wholly-owned entities and those in which the government's participation in ownership is 90% or greater, as well as project/programs and funds</p>

No.	Indicator	Risk Consideration				Indicator risk level	Comment
		High risk	Significant risk	Moderate risk	Low risk		
							<p>implemented/managed by Government ministries and agencies.</p> <p>The accounting framework for presentation of the financial statements required by law is accrual based IPSAS.. The financial statements therefore present information on revenues, expenditures, assets, liabilities and equity accounts.</p> <p>(Appendix A, Item 1) <i>pg 66;67</i></p>
<b>8</b>	<p><b>Financial audit/ SAI auditor general</b></p> <p><i>*For decentralized governments, consider consolidated audit coverage, if available.</i></p>	External audit covers less than 80% of central government expenditures.	External audit covers 80% to 90% of central government expenditures	External audit covers 90% of central government expenditures.	External audit covers all central government expenditures.	<b>Low</b>	<p>All entities of central government are audited annually covering revenue/expenditure and assets/liabilities.</p> <p>A full financial audit, and certain performance audits, are performed and standards should adhere to auditing standards that focus on significant and systemic issues. The exception to the audit requirement is the Parliament, which is not regularly audited. (Appendix A, Item 1) <i>pg 70</i></p>

No.	Indicator	Risk Consideration				Indicator risk level	Comment
		High risk	Significant risk	Moderate risk	Low risk		
9	<b>SAI independence</b>	SAI reports to government agency.			SAI reports to legislature (or equivalent justice system).	<b>High</b>	The Supreme Audit Institution in Mongolia reports to the legislature. (Appendix A, Item 1) <i>pg 70</i>  However, it should be noted that the Auditor General is appointed by and reports to the speaker of the Parliament who is also the partisan of the ruling party. Accordingly, the independence may be impaired. As such, the risk rating has been assessed as High.
10	<b>Audit standards applied by the SAI</b>	SAI applies national audit standards, which are significantly inconsistent with international standards.		SAI applies national audit standards, which comply with international standards.	SAI applies international audit standard.	<b>Low</b>	The Supreme Audit Institution applies international audit standards. (Appendix A, Item 1) <i>pg 68, table 24</i>
11	<b>Follow-up action to audit reports</b>	Points raised by external audit are infrequently followed up.	Points raised by external audit are usually but not always followed up. A significant number of points recur in following years.	Points raised by external audit are always followed up. In a few cases, points recur in following years.	Points raised by external audit are always properly followed up. Points generally do not recur in following years.	<b>Significant</b>	There is evidence of effective and timely follow up for the most part.  Based on random sampling of ten government entities, we have reviewed follow-up actions taken to findings raised in the previous year's

No.	Indicator	Risk Consideration				Indicator risk level	Comment
		High risk	Significant risk	Moderate risk	Low risk		
							<p>audit reports as of fiscal year ended 2016.</p> <p>We noted that with exception of the Ministry of Foreign Affairs of Mongolia, nine government entities had followed up on the previous year's audit recommendations as evidenced in the audit reports of randomly selected entities as of December 31, 2014 and 2015. As for Ministry of Foreign Affairs of Mongolia, it had been noted that 50% of previous year's audit recommendations had been followed up. As such, we have set the risk level as "Moderate"</p> <p>(Appendix A, Item 1) <i>pg 70</i></p>
12	Country has a national procurement framework	No			Yes	Low	<p>Mongolia has a national procurement framework. According to a comprehensive review of Mongolian public procurement framework conducted by Partnership for Action on Green (PAGE) and</p>

No.	Indicator	Risk Consideration				Indicator risk level	Comment
		High risk	Significant risk	Moderate risk	Low risk		
							<p>the United Nations Environment Programme - (UNEP), Mongolia has a suitable legislative framework to support the implementation of sustainable public procurement (SPP). (Appendix A, Item 3) <i>pg. 28, 30-32</i></p> <p>It should be noted that while there is a procurement system in place, the system is not assessed highly in comparison with that of other countries. According to the 2017 Benchmarking Public Procurement report by World bank, The Mongolia scores 54<sup>th</sup> of 180 countries on bid preparation score, 63<sup>rd</sup> on bid submission score, 57<sup>th</sup> on bid opening, evaluation and award score, 50<sup>th</sup> on procurement contract, 54<sup>th</sup> on performance guarantee score and 48<sup>th</sup> on payment of suppliers score.</p> <p>(Appendix A, Item 16) <i>pg. 158-159</i></p>

No.	Indicator	Risk Consideration				Indicator risk level	Comment
		High risk	Significant risk	Moderate risk	Low risk		
							<p>Mongolia’s score of 38 on Transparency International’s 2016 Corruption Perception Index dropped its ranking from 72 to 87 in 2016. Over recent years, Mongolia’s score on the Corruption Perception Index has stagnated, with scores of 36 in 2012, 38 in 2013, 39 in 2014, and 39 in 2015. This year, Mongolia’s score fell by one point to 38, suggesting continued stagnation in Mongolia’s anti-corruption efforts.</p> <p>(Appendix A, Item 21 and 22 )</p>
13	<b>Transparency of audit process</b>	Statutory external audit reports are infrequently published. They are rarely debated in the media, even when of public interest.	Most statutory external audit reports are published. They are sometimes debated in the media when of public interest.	All statutory external audit reports are published. They are usually debated in the media when of public interest.	All statutory external audit reports are published. They are debated in the media when of public interest.	<b>Significant</b>	<p>All audit reports are available to the public on the Mongolian National Audit Office (MNAO) websites. They are sometimes debated in the media when of public interest.</p> <p>As per the OECD’s report, the MNAO’s 2014 report indicated that the MNAO conducted 248 performance audits, 4,543 financial</p>

No.	Indicator	Risk Consideration				Indicator risk level	Comment
		High risk	Significant risk	Moderate risk	Low risk		
						<p>statement audits and 187 compliance audits, thus performing a total of 4,978 audit engagements; the audit reports were made available to the public on the MNAO website.</p> <p>(Appendix A, Item 7) <i>pg. 74</i></p> <p>According to the MNAO annual report 2016, the MNAO conducted 196 performance audits, 3,297 financial statement audits and 219 compliance audits, thus performing a total of 3,712 audit engagements in 2016. The MNAO conducted audits on the 67% of entities subject to external audit while outsourcing to private independent audit firms for the remaining 33%. The MNAO has 389 employees in 2016.</p> <p>(Appendix A, Item 17) <i>pg. 4</i></p> <p>According to the Census of Mongolia, prepared once in every four years, Mongolia has a total 6,082 entities</p>	

No.	Indicator	Risk Consideration				Indicator risk level	Comment
		High risk	Significant risk	Moderate risk	Low risk		
							<p>which 1,124 for state-owned entities and 4,958 for local entities in 2016.</p> <p>(Appendix A, Item 18)</p> <p>Not only that 2,785 government entities were not subject to an audit by MNAO, the number of entities audited by each employee of MNAO is significant at 9.5 on average and may negatively impact the quality of the audit performed by MNAO given the volume of resources available to the MNAO.</p> <p>According to provision 16.2 of State Audit law, the MNAO selects an audit subject and submits to the State Budget Committee of the Parliament that makes the ultimate decision as to the entity that would be subject to MNAO's audit.</p>

No.	Indicator	Risk Consideration				Indicator risk level	Comment
		High risk	Significant risk	Moderate risk	Low risk		
14	<b>Staff qualifications and skills</b>	It is often unclear whether staff have the skills and qualifications necessary to discharge their duties.	In some cases, it is unclear whether staff have the skills and qualifications necessary to discharge their duties.	In only some isolated cases is it unclear whether staff have the skills and qualifications necessary to discharge their duties.	It is always clear that all staff have the skills and qualifications necessary to discharge their duties.	<b>Significant</b>	<p>Although there is not much clarity on whether personnel have the skills and qualifications necessary to conduct their jobs well, Mongolia ranks number 86 out of 127 on KPMG's Change Readiness Index (CRI), with a score of .45 out of 1.0 on Public Administration. This score is based on political interference and corruption, which affect government bureaucracy management. As such, we have set the risk level at Significant. (Appendix A, Item 4.1 p. 8; Item 4.2 "Government Capability")</p> <p>As per a UNDP Mongolia's report, there is continuing politicization of personnel policy at the central executive level. High turnover of staff in senior positions is observed after each election. This is an issue of concern as it undermines government stability and continuity. (Appendix A, Item 20) <i>pg 42</i></p>

No.	Indicator	Risk Consideration				Indicator risk level	Comment
		High risk	Significant risk	Moderate risk	Low risk		
15	<b>Financial systems</b>	Financial systems only capture and report on the most basic financial data, and this is frequently unreliable. System maintenance and performance is generally poor.	Financial systems only capture and report on the most basic financial data. While there are system maintenance and performance problems, generally the system is stable.	Financial systems are adequate for most but not all data capture and reporting needs. They are reliable and properly maintained.	Financial systems are adequate for data capture and reporting needs. They are reliable and properly maintained.	<b>Moderate</b>	<p>Financial systems are adequate for most, but not all, data capture and reporting needs. The financial systems are reliable and properly maintained. Budget reporting is "good" but can be enhanced (Appendix A, Item 6). <i>pg 10;13</i></p> <p><i>The Implementing Partner's annual and quarterly budget/disbursement plans are prepared annually by IPSAS ("International Public Sector Accounting Standard") through the Government Financial Management Information System (GFMIS) non-integrated, stand-alone, fixed asset accounting, procurement, budget entity, and consolidated financial reporting systems. The annual budget/disbursement plan will be discussed and approved by the MOF and Implementing Partner and reflected in the state budget. The Government Financial Management Information System (GFMIS) covers under IPSAS ("International Public Sector Accounting Standard")</i></p>

No.	Indicator	Risk Consideration				Indicator risk level	Comment
		High risk	Significant risk	Moderate risk	Low risk		
							<p><i>and Integrated Budget Law (IBL) and its respective regulation.</i></p> <p><i>Also, financial management procedure is updated manually including procedures related to proper authorization for payment requests, segregation of duties, and other specific internal control procedures and practices relating to the project's Financial Management and the MOF ("the Ministry of Finance") will carry out day-to-day implementation of the project and be responsible for the overall project oversight and coordination and a PSC ("Project Steering Committee") will be established at the MOF for this purposed. The procedures identified in the updated FM Manual will have to be closely followed by all the parties involved in project implementation.</i></p> <p>(Appendix A, Item 6). pg 33</p>

No.	Indicator	Risk Consideration				Indicator risk level	Comment
		High risk	Significant risk	Moderate risk	Low risk		
16	<b>Environmental conditions</b>	Natural disasters or significant events regularly occur that displace citizens and resources.			Natural disasters or significant events that displace citizens and resources rarely or never occur.	<b>High</b>	<p>Natural disasters or significant events regularly occur that displace citizens and resources.</p> <p>(Appendix A, Item 8) <i>pg 1</i></p> <p>The following natural disasters occur frequently: meteorological events such as blizzard; heavy snow; dust storm; "dzud" which is an extremely harsh winter; rain water flood; snow melt flow; and others such as earthquake; wildfire; drought; and desertification.</p> <p>The high frequency of natural disasters and their extent presents a serious constraint which delays the development of Mongolia.</p> <p>(Appendix A, Item 13) <i>pg 2</i></p>
17	<b>Exchange rate volatility</b>	Foreign exchange rates fluctuate significantly on a daily basis.	Foreign exchange rates fluctuate significantly on a weekly or monthly basis.	Foreign exchange rates have remained relatively consistent, with the exception of	Foreign exchange rates do not fluctuate significantly.	<b>High</b>	Mongolia has had a floating exchange rate regime since 2009 and the foreign exchange rates continue to fluctuate significantly.

No.	Indicator	Risk Consideration				Indicator risk level	Comment
		High risk	Significant risk	Moderate risk	Low risk		
				significant one-off fluctuations.			(Appendix A, Item 9) <i>pg 61</i>
<b>18</b>	<b>Existence of a black market</b>	Black market is prevalent and influential in the country.	Black market exists and has significant influence in the country.	Black market exists in the country, but effective actions are being taken to eliminate or limit its influence in the country.	Black market may exist but does not have an influence in the country.	<b>Significant</b>	The Asia Foundation report, makes references to previous reports that estimated the size of the informal sector in Mongolia. The study on the informal economy which was funded by USAID (published in 2000) suggested that the informal economy accounted for 13% of value-added GDP. In 2004, the National Statistical Office (NSO) of Mongolia put this figure at 10.5%, and the informal sector's share of GDP was revised downward again to 8% following a census in 2006. As for the informal economy's share of overall GDP, the International Monetary Fund asserted in 2008 that the informal economy accounted for 37% of Output. Mongolia has, of course, changed considerably since these studies were published, but within the informal sector, change has been gradual and the informal sector decreased.

No.	Indicator	Risk Consideration				Indicator risk level	Comment
		High risk	Significant risk	Moderate risk	Low risk		
							<p>(Appendix A, Item 14) <i>pg. 13-15</i></p> <p>Per BTI's country report on Mongolia, the informal sector is now relatively small, at below 10% of GDP.</p> <p>(Appendix A, Item 15) <i>pg. 16</i></p> <p>It should be noted that according to the World Bank / EBRD Business Environment and Enterprise Performance Survey (BEEPS V), one of the top three business environment obstacles identified by Mongolian firms was competitors' practices in the informal sector. Additionally, corruption is an issue in the judiciary and other areas of government. (Appendix A, Item 10) <i>pg. 15</i></p>
19	Reliability of statistical data					Moderate	<p>Mongolia's national accounts statistics were considered as broadly adequate for Fund surveillance according to the IMF Staff Report issued in 2015.</p>

		Risk Consideration					
No.	Indicator	High risk	Significant risk	Moderate risk	Low risk	Indicator risk level	Comment
							However, further work is required to resolve inconsistencies and improve coherence of source data. (Appendix A, Item 11) p.5

## Appendix A: Sources of Information

The following sources of information were utilized for the Macro Assessment. Each source represents to the most recent publicly available document at the time the Macro Assessment was performed.

- 1. Mongolia Public Financial Management Performance Report, 2015**  
<https://openknowledge.worldbank.org/bitstream/handle/10986/22093/Mongolia000Pub0t0performance0report.pdf?sequence=1&isAllowed=y>
  
- 2. Mongolia Economic Update - November 2015**  
<http://documents.worldbank.org/curated/en/588341468197974334/pdf/101064-WP-PUBLIC-ADD-SERIES-Box393257B-Mongolia-Economic-Update.pdf>
  
- 3. Review of the public procurement legal framework of Mongolia, 2016**  
[http://www.scpclearinghouse.org/sites/default/files/mongolia\\_legalreview\\_final\\_1.pdf](http://www.scpclearinghouse.org/sites/default/files/mongolia_legalreview_final_1.pdf)
  
- 4. 2017 Change Readiness Index – Assessing countries’ ability to manage change and cultivate opportunity**
  - 4.1 <https://assets.kpmg.com/content/dam/kpmg/xx/pdf/2017/07/change-readiness-index-report-2017.pdf>;
  - 4.2 <https://home.kpmg.com/xx/en/home/insights/2017/06/change-readiness-tool.html>
  
- 5. Mongolia: 2017 Article IV Consultation and Request for an Extended Arrangement Under the Extended Fund Facility-Press Release: Staff Report; and Statement by the Executive Director for Mongolia**  
<https://www.imf.org/en/Publications/CR/Issues/2017/05/31/Mongolia-2017-Article-IV-Consultation-and-Request-for-an-Extended-Arrangement-Under-the-44954>
  
- 6. International Development Association project appraisal document on proposed credits in the amount of SDR 2.8 million IDA hard-term credit and SDR 6 million IDA credit to Mongolia for a strengthening fiscal and financial stability project, 2017**  
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## Appendix B: Change Readiness Index Country Snapshot



### Location: Mongolia

KPMG’s Change Readiness Index (CRI) indicates the capability of a country – its government, private sector, and civil society – to anticipate, prepare for, manage, and respond to a wide range of change drivers, which enables it to proactively cultivate opportunities and mitigate potential negative impacts.

Below is a snapshot of how Mongolia performs under the three pillars of the CRI: **enterprise capability**, **government capability**, and **people & civil society capability**.

Each pillar’s capability is determined by various sub-indicators. The three leading **areas of strength and opportunity** are reflected for each change readiness pillar. The number in parentheses indicates the rank of each sub-indicator against the other countries in the Index. To learn more about Mongolia’s performance on the CRI, visit the [Change Readiness Index tool](#).

**Mongolia ranks 86th out of 127 countries on change readiness**

 <b>Enterprise Capability</b>	 <b>Government Capability</b>	 <b>People &amp; Civil Society Capability</b>
<b>Pillar Rank: 123</b>	<b>Pillar Rank: 70</b>	<b>Pillar Rank: 56</b>
<b>Areas of strength</b> <ul style="list-style-type: none"> <li>- Technology infrastructure (61)</li> <li>- Labor market (31)</li> <li>- Innovation and R&amp;D (76)</li> </ul>	<b>Areas of strength</b> <ul style="list-style-type: none"> <li>- Security (17)</li> <li>- Land rights (52)</li> <li>- Food and energy security (64)</li> </ul>	<b>Areas of strength</b> <ul style="list-style-type: none"> <li>- Demographics (56)</li> <li>- Civil society (43)</li> <li>- Safety nets (51)</li> </ul>
<b>Areas of opportunity</b> <ul style="list-style-type: none"> <li>- Infrastructure (104)</li> <li>- Informal sector (86)</li> <li>- Economic diversification (134)</li> </ul>	<b>Areas of opportunity</b> <ul style="list-style-type: none"> <li>- Macroeconomic framework (129)</li> <li>- Public administration and state-business relations (66)</li> <li>- Fiscal policy and budgeting (131)</li> </ul>	<b>Areas of opportunity</b> <ul style="list-style-type: none"> <li>- Health (105)</li> <li>- Human capital (71)</li> <li>- Inclusiveness of growth (57)</li> </ul>