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Report No: 52387-MN

CATALYTIC FUND PROGRAM DOCUMENT

ON AN

EDUCATION FOR ALL – FAST TRACK INITIATIVE PROGRAM

IN THE AMOUNT OF US$29.4 MILLION

TO

MONGOLIA

FOR AN

EDUCATION SECTOR DEVELOPMENT PROGRAM

January 7, 2009

Human Development Sector Unit
East Asia and Pacific Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective as of February 20, 2009)

Currency	=	Tugriks
US$1.00	=	MNT 1,497.60

FISCAL YEAR
January 1- December 31

WEIGHTS AND MEASURES
Metric System

ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
ECED	Early Childhood Education and Development
EDCM	Education Donors' Consultative Mechanism
EFA-FTI	Education for All – Fast Track Initiative
EGSPRS	Economic Growth Support and Poverty Reduction Strategy
EMIS	Education Management and Information System
ESMP	Education Sector Master Plan
GAP	Government Action Plan
GER	Gross Enrollment Rate
ICT	Information and Communication Technology
MCC	Millennium Challenge Corporation
MECS	Ministry of Education, Culture, and Science
PER	Public Expenditure Review
PETS	Public Expenditure Tracking Survey
PMU	Program Management Unit
PTR	Pupil-Teacher Ratio
READ	Rural Education and Development Project
TVET	Technical and Vocational Education
UB	Ulaanbaatar

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MONGOLIA
EDUCATION FOR ALL – FAST TRACK INITIATIVE
CATALYTIC FUND PROGRAM

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MONGOLIA
EDUCATION FOR ALL – FAST TRACK INITIATIVE
CATALYTIC FUND PROGRAM DOCUMENT

Date: December 24, 2009 Acting Country Director: Hsiao-Yun Elaine Sun Sector Manager: Eduardo Velez Bustillo Team Leader: Kin Bing Wu	Lead donors: Asian Development Bank, Embassy of Japan Donors: World Bank, UNICEF, UNESCO, World Vision, GTZ, Save the Children Bank Environmental screening category: Unclassified Safeguard screening category: N/A
Project ID:TF058043	**Total Amount: USD 29.4 million**
Proposed terms: Catalytic Fund Program	Expected implementation period: 2007-2009
Expected effectiveness date: January 1, 2007	Expected closing date: December 31, 2009
Program Recipient: Mongolia	Responsible agency: Ministry of Education, Culture, and Science

Development Objective: The proposed Program will ensure universal completion of basic education, improve the quality of and expand access to pre-school education, and close the gender gap and rural/urban gap in enrollment and school completion, especially among herder populations.

Short Description: The components of the Program are as follows: (a) **Improving teaching and learning environments; (b) Improving pre-school education; (c) Creating safer and healthier learning environments in rural areas; and (d) Improving Program management.**

Financing Plan (US$m.)

Source	Local	Foreign	Total
Grant Government Other	0.0	29.4.	29.4

Estimated disbursements (Bank FY/US$m.)

Source	2007	2008	2009
Grant Government Other	8.2	8.9	12.3

Does the operation require any exceptions from Bank policies? If yes, have these been approved by Bank management?	Yes [ ] No [x] Yes [ ] No [ ]

What safeguard policies are triggered, if any?	
The program triggers the Environmental Assessment (OP/BP 4.01). Due to the fact that the EFA-FTI program was approved by the Catalytic Fund Strategy Committee and not by the World Bank's Board of Executive Directors, an Environmental Assessment was not classified according to the Bank category. The program finances remodeling, rehabilitation, and construction of buildings and dormitories, as well as the construction of one school complex. No acquisition of new land is involved in the entire civil works program. No relocation of people has occurred or is anticipated. An Environmental Assessment was undertaken prior to the construction of the new school complex. The findings will comply with the disclosure requirement to the public through the Bank Office in Mongolia in Mongolian and the Infoshop at Bank Headquarters in Washington in English.	

I. STRATEGIC CONTEXT

A. Country and Sector Issues

1. Country and sector context. Mongolia has made remarkable progress since its transition in 1990 from a planned to a market-based economy, while democratizing along the way. Between 2003 and 2008, GDP grew at an annual rate in real terms by 8 percent, and this has helped expand government revenues and reduce poverty. Nonetheless, nearly a third of the population remains poor, lives on less than $1 a day. Moreover, significant disparities between rural and urban populations remain. Nevertheless, Mongolians have placed high value on education. Before the transition, gross enrollment ratios in all levels of education were much higher than those in other low-income economies at the time. In the education sector, between 1989 and 2007, tertiary education has vastly expanded: the gross enrollment ratio (GER) has increased from 15 percent to 47 percent. Secondary education has also seen a modest expansion from 85 percent to 91 percent over the same period. However, these trends have not been linear: pre-primary, primary, lower secondary and upper secondary education suffered a severe decline throughout the 1990s, and only recovered in recent years (Table 1). Compared with other transitional economies, Mongolia's basic education completion rate is only 77 percent, lower than other transitional economies, such as Armenia (87 percent) and Tajikistan (90 percent). While it is close to achieving the Millennium Development Goal of universal primary access, Mongolia is far from ensuring universal completion of basic education.[1]

Table 1: Gross Enrolment Rates by Level (1991-2007)

	Pre-primary	Primary	Lower Secondary	Upper Secondary	Tertiary
1991	39%	97%	82%	69%	14%
2000	28%	99%	63%	28%	29%
2007	54%	94%*	89%	54%	47%

Source: Edstats 2008, and MECS, various years.
* The data was provided by MECS. The drop is due to the change in the age of in-take to grade 1.

2. Within this context, Mongolia's Government Action Plan (GAP) and the Government's Economic Growth Support and Poverty Reduction Strategy (EGSPRS) have focused support on strengthening basic education in Mongolia. The World Bank's Country Assistance Strategy also strongly supports the education sector.

[1] Basic education refers to Grades 1 – 12. The government has recently begun an important structural reform by adding an 11th year to the primary-secondary education cycle in 2004-2005 and adds the 12th year beginning in 2008 by lowering the school entry age from 7 to 6 years of age . The reform addresses the very short (10-year) primary-plus-secondary cycle that existed in Mongolia prior to 2004-2005.

3. The current key issues in the basic education sector are disparities in enrollment, student achievement, and school completion between urban and rural areas, downtown and peripheral districts in all levels of education. The coverage of early childhood education and development (ECED) was only 57 percent in 2007, concentrating in the urban areas while the poor and rural populations remain underserved. According to the World Bank's Living Standard Measurement Survey (2002), around 3 percent of the 8-12 year olds and 8 percent of the 13-17 year olds were not attending school. The Asian Development Bank's Education Sector Review estimated that around 10 percent of 8-15 year olds were out of school in 2005. Student achievement is also low. In the country's Grade 5 assessment in 2008, the some 40,000 sampled students scored 31 percent correct in mathematics and 41 percent correct in reading on average.

4. Contributing factors to inequitable access and uneven quality include both the demand-side and supply-side. The former includes poor parents' inability to pay the direct and indirect cost of schooling – books, transportation, uniforms, and foregone labor in herding or other income generating activities. The latter includes inequitable supply of school infrastructure, boarding facilities for herders' children, teaching and learning materials, equipment, school supplies, and teachers' professional development.

5. To respond to these challenges, the Education Sector Master Plan 2006-2015 (ESMP) of the Ministry of Education, Culture and Science (MECS) aims to establish an accessible and high quality education system to support the country's development. The ESMP reflects the work of the Education for All (EFA) Action Plan. The main policies are: (1) to upgrade education quality at all levels of schooling and produce citizens who can function effectively in a modern market economy; (2) to provide education services that can be accessed by children in all parts of the country, particularly rural areas, and by poor and vulnerable groups; and (3) to improve the management capacity of central and local educational institutions at all levels. The Mongolian Master Plan focuses on supply-side improvement, as the Government's new Child Money Program provides demand-side financing of about $100 per child to all children in Mongolia. This covers the private cost of education such as clothing, food, transport and books.

6. Meanwhile, Mongolia (see footnote 1) is implementing a new plan to expand basic education from 11 to 12 years. Beginning in 2008, 6-year-olds are admitted into Grade 1, whereas before, only 7-year-olds were admitted to Grade 1, so that by the time the young cohort moves up the system, they will have 12 years of education. This reform requires more resources to finance the additional grade level and achievement targets. The challenges include the need for expanded and enhanced teacher training, increased furniture and learning materials, especially in rural schools, the rehabilitation and construction of new infrastructure, including dormitories for herders' children, the development of appropriate curricula, and modern facilities, such as ICT, to teach newer subjects.

B. Background and Rationale for Program

7. The Education for All Fast Track Initiative Catalytic Fund is provided by the donor community and administered by the World Bank, to provide financial assistance worldwide to help low-income countries realize the MDGs. Eligible countries must complete a donor-endorsed Poverty Reduction Strategy (PRS) and an education sector plan. Mongolia has completed its PRS and an Education Master Plan which is consistent with EFA- FTI's overall aims. For this reason,

Mongolia was approved to receive a Catalytic Fund Grant of $29.4 million in 2006 to cover the period from 2007 to 2009. The following table provides the annual allocation and disbursement information.

Table 2: Annual Allocation, Tranche Release, and Disbursement Progress of EFA-FTI, April, 2009

	Initial Grant (2007)	Additional Grant (2008)	Final Grant (2009)
Annual Allocation and Tranche Release			
First Tranche	$3.0 million	$5.0 million	$8.0 million
Second Tranche	$5.2 million	$3.9 million	$4.3 million
Total	$8.2 million	$8.9 million	$12.3 million
Disbursement (%)			
First Tranche	100%	80%	35%
Second Tranche	95%	50%	N/A
Total	98%	67%	23%

Source: EFA-FTI PMU.

8. The Grant Agreement (GA) was signed between the Ministry of Finance and the World Bank on March 9, 2007. A Memorandum of Understanding on the implementation of the Program between the Asian Development Bank (ADB), the World Bank, and MECS was signed on the same date. The EFA-FTI activities for 2007 and 2008 financed by the Program have been implemented under the framework of collaboration of the Education Donors Consultative Mechanism (EDCM).

9. EFA-FTI has forged the first cooperative alliance between development partners (DPs) and MECS under the EDCM. It is part of the effort to support countries that strive to achieve the EFA-FTI goals of universal access and completion of basic education by 2015, harmonize donors' activities, and create dedicated structures for day-to-day management and implementation of aid-financed projects and programmes as outlined in Paris Declaration on Aid Effectiveness.

10. The assistance provided to Mongolia by the Catalytic Fund is especially important since it addresses a number of issues that donors are not currently engaging with. The ADB's Third and Fourth Education Development Projects have focused efforts on curricular reform, educational planning and budget management, and the Technical and Vocational Education subsector (TVET). UNICEF is currently addressing early childhood education and development in the country. UNESCO is providing project support for non-formal education. The Government of Japan is providing support to protect cultural institutions and community development projects. The USA's Millennium Challenge Corporation (MCC) is supporting the TVET subsector. While these donor efforts have been extremely beneficial for the sector, a large gap remains between aspiration and achievement for the basic education subsector. Support from the Catalytic Fund has been critical to address the challenges of improving quality and access to basic education and extending access to pre-school education in rural areas. These educational investments are essential to stimulate improvements in livelihoods for the country's relatively small population.

C. Higher Level Objective to which the Program Contributes

11. The proposed program is in full support of the current Country Assistance Strategy (CAS) goal of reducing rural-urban disparities. Low levels of educational attainment are key determinants of poverty, while at the same time poverty can be a key factor that limits access to and quality of schooling. Thus, investments in improving educational quality and access can break the intergenerational transmission of poverty. The Government's EGSPRS has also set as a priority improving the quality and access to basic education services, and in particular meeting the needs of poor and vulnerable groups. The EGSPRS is an important pillar of World Bank support as articulated in the CAS, and the proposed investments in improving educational quality and access will promote child-friendly schools and support teachers with professional development and learning materials.

II. PROGRAM DESCRIPTION

A. Program Development Objective

12. The overall EFA-FTI goal is to ensure universal completion of basic education and to close the gender gap and rural/urban gap in enrollment and school completion by 2015. To help Mongolia move towards the goal of quality basic education for all, the EFA-FTI program aims to: (a) improve access to and completion of basic education (primary and secondary education), with particular attention to rural areas; (b) improve the quality of basic education; (c) expand access to pre-school education in rural areas; and (d) improve program management.

Program Components

13. The EFA-FTI program adds about 4 percent to the government's annual expenditure for primary and secondary education and preschool education of roughly $234 million. This is extremely critical because the Mongolian education budget mainly covers salaries with very little amount for investments in infrastructure or quality improvement. The EFA-FTI program consists of the following components:

1. **Extend Access.** This component includes three sub-components: (a) rehabilitate and improve service facilities in 30 rural schools and dormitories; (b) provide furniture and equipment to schools and dormitories; and (c) build a new general secondary school complex.
2. **Improving teaching and learning environments** by providing adequate and continuous in-service training. It has three sub-components: (a) teacher training – of primary school teachers in teaching methodologies in mathematics, language and ICT; of first grade teachers to cope with the new in-take of 6-year-olds, and of dormitory teachers to provide better care to boarding students; (b) supplying mobile ICT stations and electronic books for teachers; and (c) rehabilitating and equipment laboratories in teachers college in UB and in selected aimags.

3. **Extending access to pre-school education in rural areas** by providing mobile ger[2] pre-schools and rehabilitating the kindergarten teachers' college in Ulaanbaatar. This component includes three sub-components: (a) deployment of mobile ger pre-schools and supply of furniture, equipment and learning materials; (b) rehabilitation of kindergarten teachers' college; and (c) provision of laboratories and learning centers to kindergarten teachers' college.
4. **Program management.** This component includes operational costs of the Program Management Unit and technical audit of the program.

The mobile ger subcomponent builds on the foundation of ger-kindergartens developed by UNESCO and UNICEF, again reflecting donor cooperation in program design.

III. IMPLEMENTATION

14. In cooperation with MECS, the EDCM, consisting of over 40 donors operating in the education sector in Mongolia, coordinates implementation of the EFA-FTI program with other donors' activities in the sector, approves the EFA-FTI's annual technical proposal and procurement plan, assist in program planning and implementation, share information, and monitor the overall process of the program as articulated in TOR that was approved by the EDCM in 2007.

15. MECS is the executing agency for the Program. EFA-FTI will continue to be supported by a Program Management Unit (PMU). The Catalytic Fund Program has been managed by a PMU. Its Executive Director also has the dual role of being the Director of the ADB-funded Education Development Program to ensure greater coordination among donors. The deputy director is in charge of daily operation of EFA-FTI. Six other program staff members are responsible for procurement, financial management, training, civil work, monitoring and evaluation, project assistance and driving.

16. The EFA-FTI program implementation follows the World Bank's procurement and financial management rules and procedures. The EFA-FTI program staff members have been trained in the World Bank procurement and financial management rules and procedures. The program team ensures the policies and procedures for the flow of funds, settlement of payments, accounting and reporting that are set forth in the Financial Management Manual. The Manual has been approved by the World Bank.

Institutional Sustainability

17. The proposed program embraces a government effort to develop a strong sector plan through broad-based consultations among bilateral, multilateral, and local education partners through the EDCM. The creation of this body has been instrumental to help mobilize resources and improve their predictability, align resources with Mongolia's education sector priorities, and coordinate support around the Education Master Plan. This coordinated approach by local donors has facilitated exchange of information and cross-learning across initiatives. Beyond the life of

[2] Ger means Mongolia's traditional housing.

the program, the establishment of the EDCM has laid the foundation to address future financing gaps in the sector and has sharpened donor and Ministry relations.

A. Fiduciary Aspects and Procurement

18. The Financial Management (FM) Assessment has concluded that the program meets the minimum Bank financial management requirements, as stipulated in BP/OP 10.02. The program continues to have acceptable FM arrangements in place for implementing the operation and providing reasonable assurance that the proceeds of the Program has been used for the purposes for which the resources were given. Financial management risk is the risk that World Bank Grant proceeds will not be used for the purposes intended and is a combination of country, sector and program specific risk factors. Taking into account the risk mitigation measures proposed under the program, the FM risk rating proposed for this program at this stage is Moderate. Further details are provided in Annex 6.

19. The PMU has developed an annual Procurement Plan which is approved by the donors and the Bank and made available at the PMU/MECS and in the program's database and on the Bank's external website. The Procurement Plan is updated annually to reflect the content of the technical proposal.

20. All Goods, Learning Materials, and Consulting Services, including those procured under direct contracting, will be subject to the prior review thresholds detailed in Annex 8.

B. Program Costs and Financing

21. The Program will be financed against the line items detailed in the table below.

Table 3: Program Cost Table

	Expenditure category	
1	**CIVIL WORKS**	48.4%
2	**GOODS**	43.4%
3	**CONSULTANT SERVICES**	3.2%
4	**TRAINING**	4.5%
5	**OPERATIONAL COST**	0.5%
	GRAND TOTAL	100%

IV. MONITORING AND EVALUATION

21. The PMU in coordination with MECS will take the lead on monitoring and evaluation activities for the Program.

22. Monitoring and evaluation of the Program will match the monitoring and evaluation framework of the Master Plan implementation. However, EFA-FTI monitoring and evaluation will also lay the foundation for MECS to begin to assess EFA-FTI activities against its goal in terms of education outcomes. While the previously existing Monitoring and Evaluation system did not collect information on education quality outcomes, and thus limited the ability to assess EFA-FTI and the larger Annual Implementation Plan against the education outcomes of interest, the program has introduced several measures to improve the quality of Monitoring and Evaluation in the sector. A consultant, whose terms of reference were developed by the World Bank, and whose work was financed by the Asian Development Bank, recently completed two reports, including "An Assessment Strategy for Mongolia," which provided a detailed roadmap for improving the quality of Monitoring and Evaluation in the country. Furthermore, program supervision has had a substantial and substantive focus on developing improved monitoring indicators and frameworks in such a way that they can be sustained long after the program closes.

23. MECS plans to undertake extensive measures to improve and strengthen EMIS with support from ADB in 2009-2010.

24. The following output and outcome indicators (source of data and time reference) will be used in monitoring and evaluation. These monitoring indicators have been identified by the Mid-term Review in 2008 and agreed by MECS and the EDCM. Recurrent costs for data collection and monitoring of the EFA-FTI activities under this Technical Proposal will be supported by Program Management (Component 4) budget.

25. The data related to output indicators will be provided by the PMU semi-annually. The MECS will provide outcome related data annually. Progress in meeting target indicators described in Annex I will be reviewed by the PMU semiannually and will be reported to the MECS and the EDCM. All data collected should be sex-disaggregated in order to understand and respond to gender issues.

V. PROGRAM AND RISKS MITIGATION MEASURES

Risk	**Risk Mitigation Measure**	**Risk Rating**
Weak financial management and risk that funds will not be used for the intended purpose	Implementation of recommendations of fiduciary assessment (in particular, presence of financial analyst and accountant in management unit) along with annual external audits	***M***

Economic conditions may force the Government to cut sectoral expenditures after the program closes, which may jeopardize the gains achieved by the program.	Teacher training, school rehabilitation, and the development of a holistic Education Management Information System will ensure that the gains from the program will be felt long after program closure.	***M***
Risk	**Risk Mitigation Measure**	**Risk Rating**
Weak capacity to monitor: (i) quality of education; and (ii) effectiveness of education activities at local level.	(i) Support for training of inspectors and an increased number of school and teacher inspections; (ii) establishment of an information management system and school map	***S***
OVERALL RISK		***M***

Risk Ratings: H (High Risk), S (Substantial Risk), M (Moderate Risk), N (Negligible or Low Risk)

VI. ENVIRONMENTAL AND SOCIAL ASPECTS

26. The potential risks associated with the expansion of schools and construction of training centers include: (a) potential resettlement issues for the population located on the land on which schools will be expanded or training centers will be built; (b) hygiene and sanitation issues linked with the construction of latrines; (c) waste disposal of construction materials; (d) loss of natural sites and biodiversity; and (e) nonfunctional equipment or construction defects leading to safety issues for users.

27. The impact is likely to be minor for several reasons: (a) all construction will take place on the sites of existing schools, and will therefore involve no resettlement; (b) the construction program benefits from the experience of EFA-FTI, under whose auspices an environmental and social risk framework, relating specifically to school construction, has been developed; and (c) technical specifications and standards have already been elaborated by the Government and used by the Contract Management Agencies proposed.

28. Due to the fact that the EFA-FTI program was approved by the Catalytic Fund Strategy Committee and not by the World Bank's Board of Executive Directors, an Environmental Assessment was not required and, hence, was not conducted at the time of preparation. The task team was aware that Mongolia has laws governing school safety, standards, and environmental management and that all civil works undertaken under the program comply with the laws.

29. The program finances remodeling, rehabilitation, and construction of buildings and dormitories, as well as the construction of one school complex. No acquisition of new land is

involved in the entire civil works program. No relocation of people has occurred or is anticipated.

30. An Environmental Assessment was undertaken prior to the construction of the new school complex. The findings will be disclosed to the public through the Bank Office in Mongolia in Mongolian and the Infoshop at Bank Headquarters in Washington in English.

31. On the social aspects, the program aims to expand access to herders' children and improve quality. Thus, it serves the poorer segment of society. The design is progressive in nature.

ANNEX 1: Country and Sector Background

1. **Background.** Endowed with an area of 1.6 million square kilometers and a population of 2.4 million, Mongolia is the least densely populated country in the world. Landlocked between Russia and China, the country has a per capita income of about US$1,400, making it one of the poorer nations in the region. Inflicted with a cold, harsh climate and short growing season, Mongolia also experiences frequent droughts and occasional severe winters. About half of Mongolians live in rural areas and are nomadic; two-thirds of them engage in livestock herding. In 2006 the agriculture sector accounted for about 22 percent of gross domestic product (GDP), compared with 30 percent in 1993, and more than 45 percent of employment. It mainly comprises livestock, which provides rural residents food, clothing, and shelter, as well as raw materials for the commercial production of cashmere, other wools, meat, and leather products. Copper and gold mining, a small manufacturing sector, and the services and trading sector complete the undiversified economic base.

2. Since the early 1990s, Mongolia has steadily transitioned to a market economy. The country moved quickly to dismantle its command economy and began to establish a framework of laws, policies, and institutions to support a market-based system. The progress has placed Mongolia at the forefront of rapid reformers among transition economies.

3. During this transition, Mongolia has begun to experience high economic growth. The real GDP growth rate was 9.9 percent in 2007, up from 3.6 percent in 1989. Economic growth has been primarily driven by agriculture (which contributed 3.4 percentage points to economic growth), and services (which contributed 4.3 percentage points). While most of the foreign direct investment (FDI) coming into Mongolia continues to go to mining, its value-added only grew by 1.7 percent in 2007 (mainly coming from coal extraction). The services sector continues to show strong growth, driven in particular by transports and trade. Under the socialist system, Mongolia attained a very high enrollment ratio at the primary and secondary education levels. However, these ratios declined during the transition period, during which the proportion of public expenditure dropped from nearly 20 percent in 1989 to an average of 16 percent during the 1990s.

4. Despite recent gains in the commodities and service sectors, Mongolia remains among the least developed nations. Economic growth, although positive, is constrained by the undiversified economy's heavy dependence upon mineral resources and animal husbandry. While boosting the economy, market forces have increased the disparity between the living standards of rural and urban populations. However, there is a widening income gap among the population, and an estimated 36 percent of the country now lives below the poverty line. More than 23 percent of the total population lives in extreme poverty on an income of less than US$0.40 a day.

5. During the global financial crisis in 2008/09, Mongolia's fiscal crisis is the most severe among countries in East Asia. A budgetary surplus in the last few years turned into a budgetary deficit, amounting to 5 percent of GDP. This required emergency budgetary support from the IMF, World Bank, ADB, and Japan in the first half of 2009. The emergency support that was

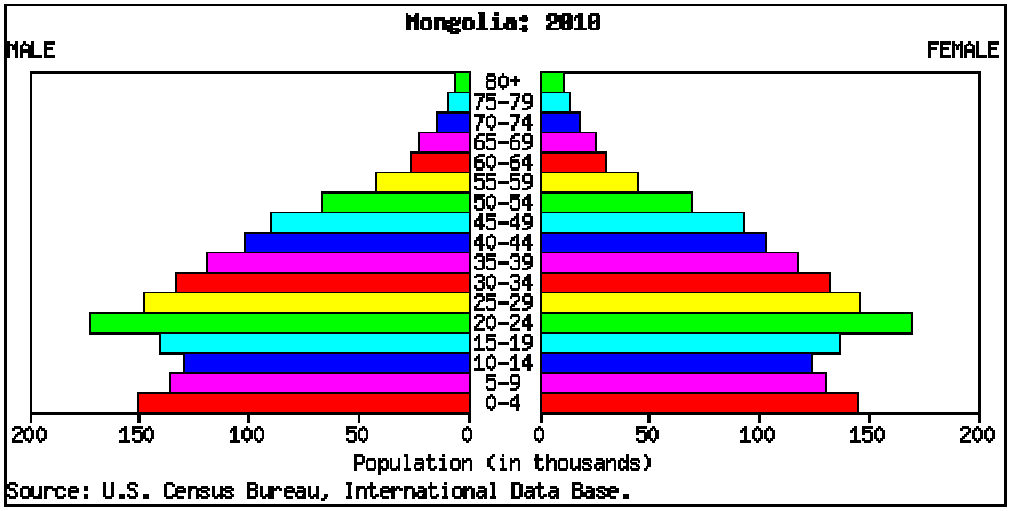
channeled to the education sector helped lower the severe indebtedness to utility companies taken on by MECS, a direct result of the high cost of heating schools.

6. **Education System.** Before the crisis started, the government began an important structural reform by adding an 11th year to the primary-secondary education cycle in 2004-2005 and a 12th year beginning in 2008-2009. The reform addresses the very short (10-year) primary-plus-secondary cycle that existed in Mongolia prior to 2004-2005. With this reform, Mongolian students now go to school for twelve years, from age 6 to 18, and primary education is compulsory. The education system consists of preschool, primary school (grades 1-6); secondary school; vocational and technical training; and universities. Gross enrollment rates (GER) are relatively high at the primary and secondary level, at approximately 93 percent. While pre-primary, primary, and secondary education are free, there are costs associated with attendance, including the need for families to pay for food to supplement snacks offered by schools, as well as uniform costs, and textbook and notebook costs. At the vocational and tertiary education levels, tuition fees are very high, and financial assistance offered by the government has low coverage rates. All teachers in Mongolia need to be certified; however, the training they receive is often of poor quality and not up to international standards.

7. Demographic trends are exerting pressures on the economy, particularly the education system. Population projections from the U.S. Census Bureau show an increasing proportion of Mongolia's population will be made up of school-aged children, 6 to 17 years old. It is estimated that by 2020, the number of school-aged children in the country will increase by almost 40 percent (Figure 1). These data, combined with Mongolia's fertility rate of 2.24, have significant implications for how the education system will need to change to accommodate greater numbers of students: more resources will be needed to hire more teachers, build more schools, redeploy teachers, and possibly implement multi-grade teaching in certain areas (with new learning materials) to cope effectively with small schools, which have larger costs.

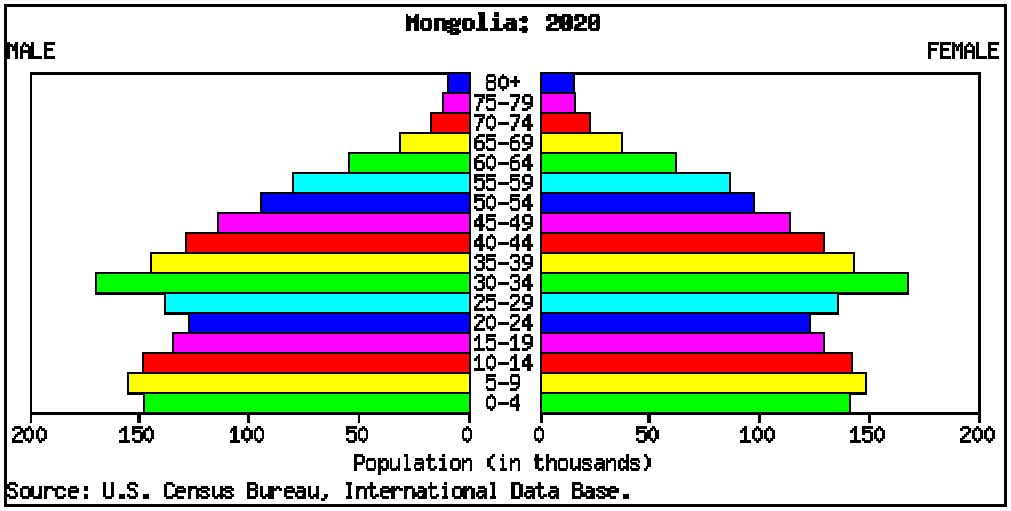
Figure 1: Mongolian Population Projections, 2010 and 2020

Mongolia Population Pyramid for 2010
Predicted age and sex distribution for the year 2010:



Mongolia Population Pyramid for 2020

Predicted age and sex distribution for the year 2020:

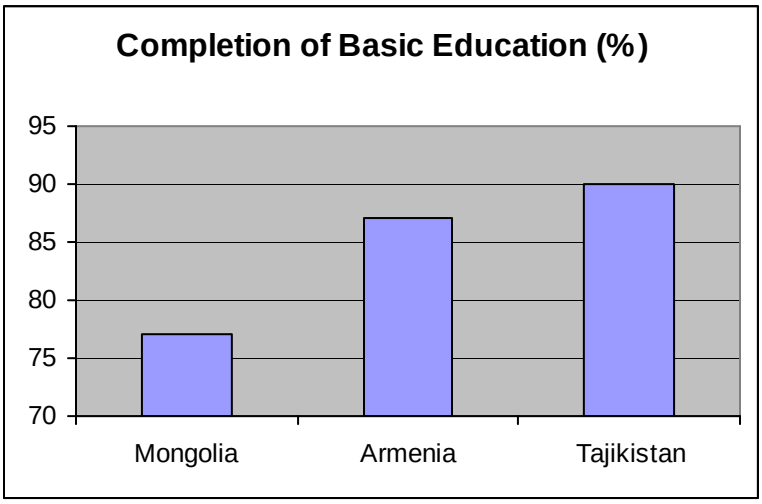


8. Recognizing that a high level of labor force education and human capital is an extremely important complementary factor to natural resource abundance, the Government has increased investments in education in order for the country to expand its comparative advantages to other sectors. In 2007, education expenditure as a percentage of public expenditure has reached 18 percent.

9. Mongolia's gross enrollment rates for primary, secondary and higher education 2007 were 93 percent, 92 percent and 43 percent, respectively, while for the East Asia and Pacific

region these figures were 111 percent, 72 percent, and 20 percent. Secondary and higher education gross enrollment rates are higher relative to other countries in the region, while primary enrollment rates are slightly lower. Compared with other transitional economies, however, Mongolia's basic education completion rate (77 percent) has been low (Figure 2). It is far from the Millennium Development Goal of universal completion of basic education.

Figure 2: Percentage of Enrolled Students who Complete Basic Education, 2007



Source: Mongolia Public Expenditure Review, World Bank, 2008
Note: All completion rate estimates are based on the Kaplan-Meier method, which takes into account whether the individual is still in school. Numbers are from nationally representative household surveys conducted between 2000 and 2002 (including Mongolia's LSMS 2002 to make it comparable with other countries) using the same definition and age group (10-19).

10. Yet enrollment figures mask important disparities in completion rates by area, wealth and, to a lesser extent, gender. Children attending schools in rural areas (bagh and soum schools) are less likely to complete lower and upper secondary than students in urban areas (aimag centers and UB schools) (See Table 3.1). This can partially be explained by the need for many children in rural areas to help support their families with animal husbandry. The consolidation of upper secondary grades into provincial capitals has also had an impact on rural students transitioning to this level. The GOM recommends that schools transfer at least 70 percent of grade 9 students to grade 10, but in practice many overcrowded schools have taken this to be the upper limit. In terms of gender, boys' dropout rate after completing lower secondary is significantly larger than girls. Disparities are even larger across consumption quintiles, with a higher dropout incidence among children from poorer households.

Table 3: There are important spatial and income disparities in completion rates

(% entering primary that complete each level)

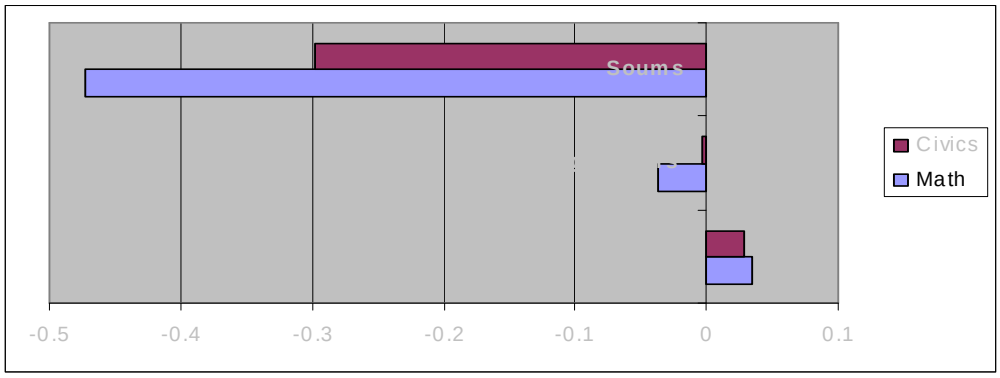
	Children aged 8-25						
	Total	**Urban**	**Rural**	**Boys**	**Girls**	**Poorest**	**Richest**
Primary	93.95	96.74	89.36	91.69	96.13	90.83	96.60
Lower secondary	81.04	87.41	70.00	75.98	85.72	72.93	90.61
Upper Secondary	54.87	60.01	45.73	48.73	60.35	42.59	69.93
Diplomas	41.91	47.20	31.56	38.31	45.49	39.59	51.47
University	9.43	10.38	7.79	10.36	9.20	7.48	12.60

Source: HIES 2006

Notes: Figures are Kaplan Meier estimates, which account for censoring (i.e. individuals still attending school at the time of the survey only contribute to the estimation sample up to last level currently attended). Survival rates indicate the cumulative probability of making the transition to each level.

11. Learning achievement is low overall and there are significant differences in the performance of students by location (Figure 2). Based on the results from the 2005 National Assessment of Students' Achievement (NASA), which tested eighth grade students in both math and civics, the average percent correct for students in mathematics and civics was 50 and 47 percent, respectively - low by international comparison. NASA is based on the adaptation to the local context of two international tests, TIMSS and CIVED.[3] In mathematics, students in the capital, Ulaanbaatar (UB), scored above the mean, while students in provincial centers (aimags) and district schools (soums) scored well below the mean. The differences are not quite as sharp in civics, but students in UB and aimag centers outperformed students in soums. The differences are most significant between students in soum and aimags and UB schools.

Figure 3: Students' achievement by location



Source: Education Evaluation Center data 2005

Note: Z scores are used for both math and civics. The z score reveals how many units of the standard deviation a case is above or below the mean.

Math: T-test of differences significant at 95 percent for UB and aimag centers and 99 percent for UB and soum/baghs and 99 percent for aimag centers and soums. Civics: T-test of differences significant at 99 percent for UB and soum/baghs and 99 percent for aimag centers and soums.

[3] Civic education included domains in politics and democracy, Human rights and freedom, State structure and Mongolian history. The number of tasks that were kept from TIMSS and CIVED is small to make a meaningful international comparison. See Education and Evaluation Center (2006) for details.

12. **Education Finance.** Spending, while high, has not contributed enough to improving quality. Mongolia's education system, once considered to be of high quality, is seen by many to have deteriorated and become largely irrelevant to the emerging needs of Mongolian society and the market economy. A 2005 public opinion poll found that only 40 percent of the population feels that the national government is "effective" or "very effective" in providing access to education, and only 23 percent believe that it is "effective" or "very effective" in ensuring education quality. Under the previous, centrally planned system, education was given a high priority, and it received a larger share of government spending than any other sector. In recent years, Government has tried to protect public spending on education in an effort to reverse the drop in enrollments that occurred in the mid-1990's. Although education's share of the total government budget fell to a low of 16 percent in 1997, by 2000 it had recovered to 18 percent (which was about 7.6 percent of GDP). In 2004, education spending was 19 percent of the state budget (and 7.5 percent of GDP). The low population density of Mongolia makes service delivery in education more expensive than in other countries.

13. However, most of this spending goes to personnel and heating costs, and the amount spent on inputs to improve quality of education is relatively small**.** The World Bank's latest Public Expenditure Tracking Survey showed that annual per student spending on stationery and books on average was about 2,000 tugriks (USD 1.70) and spending on teacher training on average was 11,500 tugriks (USD 9.50). Rural schools in particular have limited resources to support professional development of teachers, as well as inputs. Improving access and quality, most notably for the rural poor, will require significant adjustment in the resources allocated to schools and in how teacher compensation is structured.

14. At the primary and secondary level, fees for textbooks and uniforms comprise the largest per-pupil share of spending on education. Table 4 shows the distribution and levels of private household expenditures per pupil for primary and secondary education by consumption quintiles. The cost of schooling rises with the position of the households in the consumption distribution. Students from the richest quintile spend more than double the poorest, both at the primary and secondary level. Expenditures in tuition represent around one tenth for the richest while they are insignificant for the rest. The main component of spending across all groups is books, at an average of 45 percent, but for the poorest the share is nearly 60 percent. Household expenditure on books will likely continue to be a significant expenditure across households as a result of a 2004 policy which required families to purchase textbooks for their children. Uniforms, food and other expenses while away from home account for a quarter of total expenditures.

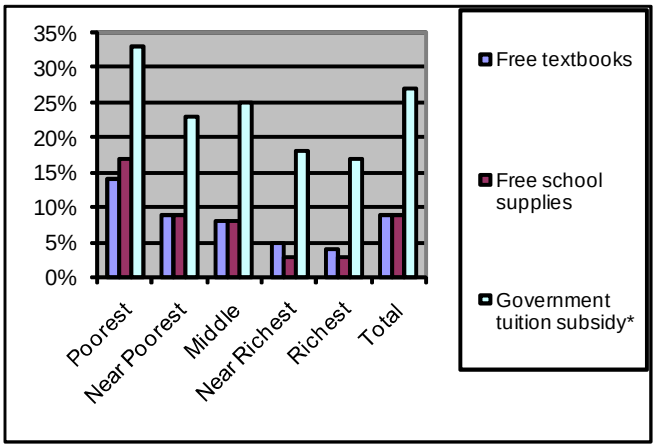
Table 4: Household spending on public primary and secondary education

	Poorest	Q2	Q3	Q4	Richest	Total
Primary (%)						
Room Rent	0	0.1	0	0.4	1	0.3
Food to pay for room	1.9	6.7	1	5.9	2.2	3.5
Transport	1.1	3.3	3.6	6.6	3.4	3.6
Tuition	0.2	2.5	2.3	2	9.1	3.3
Books	59.1	45.7	46	42	42.5	46.9
Uniforms	15.7	13.7	16.4	13	12.6	14.3
Expenses away from home	4.8	8.7	12.2	13.6	14.3	10.8
Other	17.2	19.3	18.4	16.6	15	17.3
Total (tugrik/person/month)	2,239	3,052	3,707	4,050	4,790	3,348
Secondary (%)						
Room Rent	0.3	1	0	0.4	0.4	0.4
Food to pay for room	1.1	2.9	1.4	3.8	2.2	2.4
Transport	3.9	6.2	7.3	6.8	5.8	6.2
Tuition	1.7	0.6	3.3	3.5	10.9	4.5
Books	57.8	46.4	43.1	41.8	35.4	43.4
Uniforms	10.9	11.6	10.1	8.4	7.6	9.5
Expenses away from home	7.6	10.9	18.3	15.9	17.6	14.9
Other	16.7	20.4	16.4	19.5	20	18.7
Total (tugrik/person/month)	2,670	3,607	4,390	4,778	6,004	4,233

Source: 2002/2003 HIES/LSMS

15. Equity. Looking at demand-side financing programs, the poor represent the largest share of beneficiaries of Government education programs, but there is leakage to the non-poor and coverage is low. Figure 5 shows the share of students that are beneficiaries of three Government programs by consumption quintile. The free textbooks and school supplies programs are targeted to poor students in primary and secondary schools. It is clear from Table 4 that the implementation of these two programs is not entirely pro-poor because there are not significantly large differences between consumption quintiles in the shares of students receiving these benefits. It also highlights the overall low coverage of these programs, with only 9 percent of students in the country receiving free textbooks or school supplies.

Figure 5: Higher Education financial aid programs benefit the poor, but leakages are significant



Source: HIES 2006

16. Overall, Mongolia's financing system has achieved a level of vertical equity because it spends more per-student in small and rural schools.[4] In Mongolia, small schools have higher per-student spending than large schools, but they are still struggling to survive under the current per-capita funding formula. Small and rural schools spend significantly more per-student than other schools (Table 5). The driving factor in the higher per-student spending of small and rural schools is the relatively low pupil teacher ratio (PTR) in these schools.[5] Other factors which drive the high spending of rural schools (which tend to also be small) is inefficient heating infrastructure (local boilers, stoves) and school dormitories, which are necessary to ensure access to school for rural children who live too far away to commute each day or whose families are nomadic. In addition, small schools, in general, are more costly because they are not able to take advantage of efficiency gains that come from economies of scale. Thus, it may be necessary for efficiency gains to yield to equity considerations in the case of small schools. Figure 6 provides information on the proportion of the population who live in the most rural areas where small schools are most likely to exist.

[4] The education financing literature distinguishes two approaches to equity-"horizontal equity" and "vertical equity". Horizontal equity is generally defined as maintaining the same level of expenditure for students who are in similar economic and/or social circumstances. Vertical equity encourages public financing to be relatively more generous to students in relatively less well off situations and justifies differences in per capita funding from cost differentials in educating different types of students.

[5] The PTR in rural primary schools is 31:1 compared with 34:1 in urban areas, on average, but there are rural schools with PTRs as low as 11:1 and urban schools with PTRs as high as 77:1.

Table 5: Small, Rural Schools have Higher Levels of per-student Spending

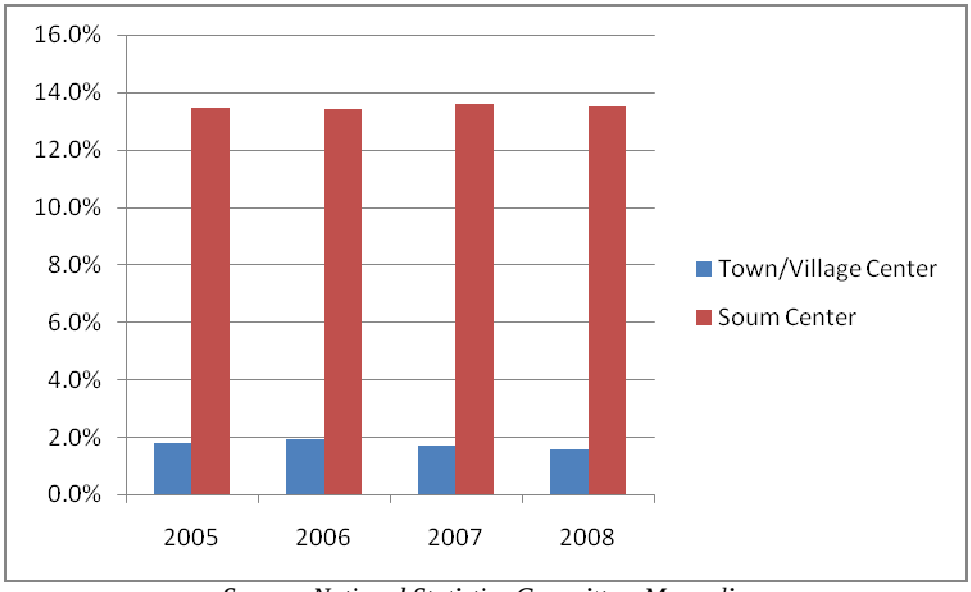
Student enrollment	Small	Medium	Large	A=B	B=C	A=C
	A	B	C			
Total spending (MNT[a])	160.5	120.4	101.5	***	***	***
Observations	36	37	36			
Location	**Urban**	**Rural**		**A=B**		
	A	**B**				
Total spending (MNT[a])	118.1	138.4		**		
Observations	59	50				

a: In thousands.

*T-test of differences is significant at: *** 99%, ** 95%, * 90%.*

Source: Public Expenditure Tracking Survey (PETS) Mongolia 2006.

Figure 6: Proportion of Population in Town/Village Centers and Soum Centers



Source: National Statistics Committee, Mongolia

17. The rest of Annex 1 presents information and basic education statistics in Mongolia both by subsector and by aimag. Not only does the income level vary across aimags, but also are pupil-teacher ratios, and dropouts as a percentage of the total enrollment. Bayan-Olgii has the largest number of dropouts among all aimags, and a very large proportion of its population is Khazak. Language is a major barrier among minorities in Mongolia.

Table 6: Basic Education Statistics, by Subsector, 2007

	Number of Students	Number of Teachers	PTR	Per Student Expenditure (USD)
ECD	100,449	3,446	29:1	286
Primary	239,663	7,694	31:1	186
Secondary	297,883	16,203	18:1	257
TVET	29,906	1,451	21:1	85
Tertiary	150,326	6,892	22:1	200

SOURCE: MINISTRY OF EDUCATION, CULTURE, AND SCIENCE.

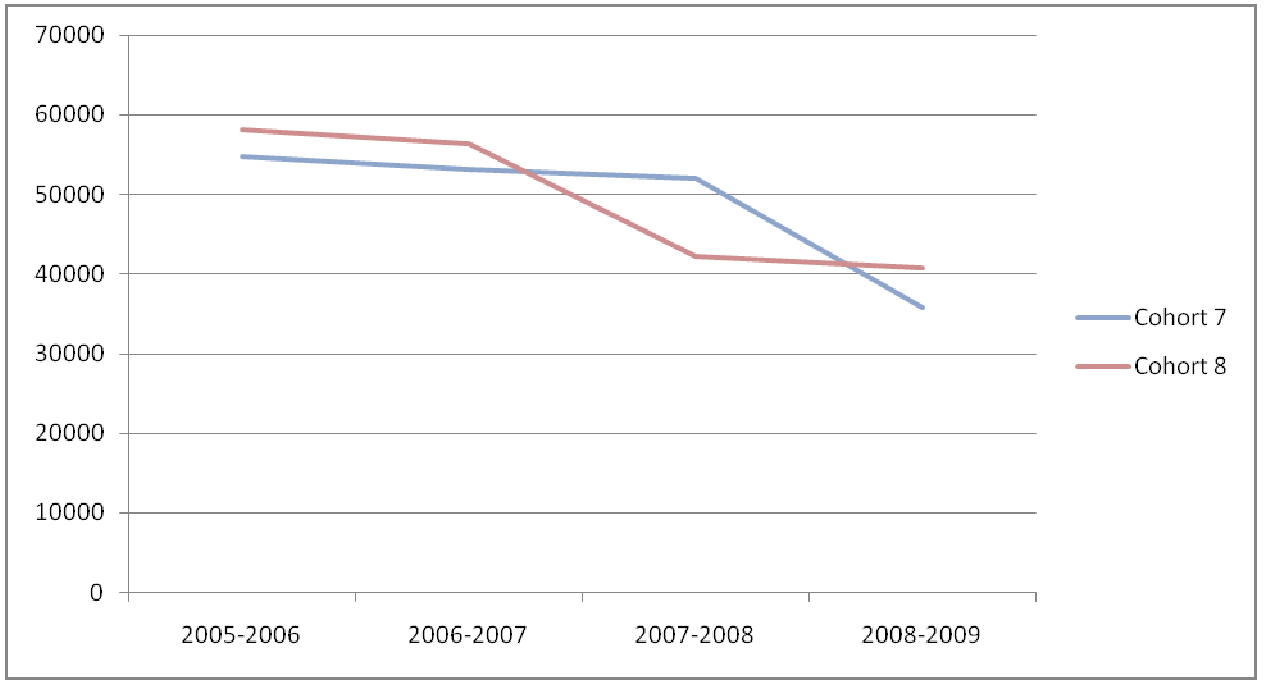
TABLE 7: BASIC EDUCATION STATISTICS IN PRIMARY AND SECONDARY EDUCATION BY AIMAG, 2007-08

Aimag/City	*Total Population in Aimag (in '000 people)*	*Per Capita GDP (US$)***	*Unem-ployment Rate*	*Total number of Students*	*of which Female*	*Students as % of Total*	*Number of classes*	*Class Size*	*Number of teachers*	*of which Female*	*Pupil Teacher Ratio*	*Total Number of Drop Outs*	*of which Female*	**Dropout as % of Total**	**Female Dropout as % of Total Female**
Arkhangai	92.8	850.10	3.6	20,803	10,616	3.9%	663	31.4	834	680	24.9	809	273	9.2%	7.6%
Bayan Ulgii	100.8	522.76	5.3	23,795	12,060	4.4%	813	28.7	1,127	823	21.1	2,423	1,293	27.6%	36.1%
Bayankhongor	84.2	636.07	5.5	19,471	9,919	3.6%	609	33.3	747	595	26.1	170	63	1.9%	1.8%
Bulgan	60.5	923.76	4.8	11,689	5,849	2.2%	415	29.2	557	446	21.0	36	16	0.4%	0.4%
Gobi-Altai	60.2	821.03	3.9	12,876	6,562	2.4%	443	29.1	598	492	21.5	107	32	1.2%	0.9%
Dornogobi	55.6	459.23	1.9	11,144	5,815	2.1%	375	31.4	475	401	23.5	181	61	2.1%	1.7%
Dornod	72.9	632.02	4.5	15,721	7,937	2.9%	546	30.2	764	617	20.6	189	65	2.2%	1.8%
Dundgobi	48.8	871.58	2.5	9,484	4,811	1.8%	329	30.7	437	358	21.7	277	77	3.2%	2.1%
Zavkhan	81.1	776.69	3.7	17,756	8,783	3.3%	607	29.3	831	663	21.4	160	44	1.8%	1.2%
Uvurkhangai	115.7	606.36	4.2	24,308	12,516	4.5%	723	34.0	956	742	25.4	597	197	6.8%	5.5%
Umnugobi	46.9	1,467.03	1.5	10,832	5,503	2.0%	349	31.4	457	377	23.7	150	53	1.7%	1.5%
Sukhbaatar	55.1	2,434.07	2.7	11,284	5,665	2.1%	365	31.3	498	389	22.7	118	46	1.3%	1.3%
Selenge	100.5	1,067.82	2.6	20,682	10,447	3.8%	704	30.3	921	759	22.5	89	22	1.0%	0.6%
Tuv	85.9	949.12	1.4	15,387	7,723	2.9%	573	29.1	779	657	19.8	288	91	3.3%	2.5%
Uvs	80.4	751.98	2.6	20,547	10,563	3.8%	666	31.4	882	673	23.3	726	245	8.3%	6.8%
Khovd	88.6	744.63	2.1	21,865	11,183	4.1%	662	33.1	881	688	24.8	656	326	7.5%	9.1%
Khuvsgul	122.4	751.56	3.4	27,066	14,097	5.0%	846	36.4	1,137	896	23.8	669	259	7.6%	7.2%
Khentii	71.3	797.80	3.4	14,823	7,444	2.8%	520	28.7	675	535	22.0	278	82	3.2%	2.3%
Darkhan Uul	87.6	648.68	3.6	20,613	10,445	3.8%	677	30.7	997	814	20.7	98	42	1.1%	1.2%
Ulaanbaatar	1,031.2	1,880.72	1.7	184,265	93,690	34.3%	5,815	30.6	8,231	6,923	22.4	730	288	8.3%	8.0%
Orkhon	80.1	8,511.29	4.8	20,139	10,137	3.7%	629	34.8	967	813	20.8	12	5	0.1%	0.1%
Gobisumber	12.6	880.13	3.8	2,996	1,506	0.6%	99	32.1	146	121	20.5	12	3	0.1%	0.1%
Total	2,635.2			537,546	273,271	100%	17,428	687	23,897	19,462	494	8,775	3,583	100.0%	100.0%

* Mongolian Statistical Yearbook 2007.

**** Calculated by dividing aimag population by aimag GDP and then dividing by exchange rate of US$1=MNT 1,170.43 (Mongolian Statistical Yearbook 2007) .**

Figure 7: Approximate Cohort Reconstruction*



Calculated from data sourced from *National Statistics Committee, Mongolia*

*Cohort 7 refers to those students entering Grade 7 in 2005-2006; Cohort 8 refers to those entering Grade 8 in 2005-2006

ANNEX 2: Major Retailed Projects Financed by the Bank and/or Other Agencies

1. Bank-financed projects and programs

Sector issue	Project name	IEG rating
Inadequate reading materials in rural education to cultivate the reading and learning habit and develop basic skills	Rural Education and Development Project (READ)	-
Analytical programs		
Sector issue	**Project name**	**Status**
Higher education quality and efficiency	Informal note on higher education	Delivered to client
Public expenditure review	Public Expenditure Financial Management Review	Delivered to client

2. Main projects financed by other development agencies

Sector issue	Project name	Funding agencies
Dilapidated school buildings and outdated curricula in the basic education subsector	TEDP (Third Education Development Project)	Asian Development Bank
Lack of multi-grade teaching in rural and remote areas	Provision of Comprehensive Mobile Education to Herders (Phase 2)	UNESCO
Skill mismatch and lack of employment opportunities for TVET graduates	TVET Project	Millennium Challenge Corporation

ANNEX 3: Results Framework

1. The overall EFA-FTI goal is to ensure universal completion of basic education and to close the gender gap and rural/urban gap in enrollment and school completion. To help Mongolia move towards the goal of quality basic education for all, the EFA-FTI program consists of the following components:

- **Extend Access.** This component includes three sub-components: (a) rehabilitate and improve service facilities in 30 rural schools and dormitories; (b) provide furniture and equipment to schools and dormitories; and (c) build a new general secondary school complex.
- **Improving teaching and learning environments** by providing adequate and continuous in-service training. It has three sub-components: (a) teacher training – of primary school teachers in teaching methodologies in mathematics, language and ICT; of first grade teachers to cope with the new in-take of 6-year-olds, and of dormitory teachers to provide better care to boarding students; (b) supplying mobile ICT stations and electronic books for teachers; and (c) rehabilitating and equipping laboratories in teachers college in UB and in selected aimags.
- **Extending access to pre-school education in rural areas** by providing mobile ger[6] pre-schools and rehabilitating the kindergarten teachers' college in Ulaanbaatar. This component includes three sub-components: (a) deployment of mobile ger pre-schools and supply of furniture, equipment and learning materials; (b) rehabilitation of kindergarten teachers' college; and (c) provision of laboratories and learning centers to kindergarten teachers' college.
- **Program management.** This component includes operational costs of the Program Management Unit and technical audit of the program.

PDO	Program Outcome Indicators	Use of Program Outcome Information
1. To improve access and completion of basic education (primary and secondary education), with particular attention to rural areas; 2. To improve the quality of basic education; and 3. To expand access to pre-school education in rural areas.	• GER in primary education, disaggregated by gender • GER in secondary education disaggregated by gender • Net intake in grade 1 • Transition ratio from primary to secondary • Completed baseline measures of grade 5 achievement in rural schools • Gross-enrolment ratio of pre-school education	MECS education statistics Same as above Same as above Same as above Achieving synergy with READ project by using their assessment information as baseline MECS education statistics

[6] Ger means Mongolia's traditional housing.

Component	Intermediate Outcome Indicators	Use of Intermediate Outcome Monitoring
1. Improve access to basic education (Grades 1-12) through improvement of facilities and expanding supply of places ("Creating Safer and Healthier Learning Environments in Rural Areas")	• Number of rural schools and dormitories rehabilitated, disaggregated by aimag • Number of new schools built and places provided • Number of new pieces of furniture and equipment supplied	Indicates extent to which industry is engaged in school planning and operations
2. Improved quality in basic education ("Improving Teaching and Learning Environments")	• Provision of in-service training in teaching methodologies in five subjects in primary and secondary schools and also to all Grade 1 teachers and dormitory teachers • Improving facilities of pre-school teachers colleges • Provision of laboratories and learning centers to teachers' college in UB • Provision of ICT (mobile unit) to enrich teaching and learning experiences • Using Grade 5 assessment results to inform student assessment • Conducting a workshop on quality to discuss means for improvement	Program reports Program reports Program reports READ report Quality workshop
3. Extend access to pre-school education in rural areas ("Improving and Strengthening Pre-School Education")	• Deployment of mobile ger pre-schools • Supply of furniture, equipment and learning materials to ger pre-schools • Rehabilitation of kindergarten teachers' college	Program reports Program reports Program reports
4. Enhance program management and improve donor coordination ("Grant Management and Technical Audit")	• Establishment of EDCM to supervise and approve EFA-FTI technical proposal and procurement plan • Establishment of a Program Management Unit with ADB's project director as head of EFA-FTI and a deputy director dedicated on EFA-FTI	PMU report; Aide memoires

	management • Joint supervision missions with donors and reporting on findings to EDCM • Number of program staff trained and type of training attended	

Arrangements for results monitoring – final outcome and intermediate outcome indicators

		Target Values			Data Collection and Reporting		
Program Final Outcome indicators	**Baseline**	**2007**	**2008**	**2009**	**Frequency and reports**	**Data Collection Instruments**	**Responsibility for Data Collection**
GER in primary education *	96.4%	93.5%	94.8%	93.6%*	Baseline Annual Program completion	MECS Annual Surveys	Schools, MECS, and PMU will coordinate for data collection
GER in secondary education*	94.2%	93.8%	95.4%	95.5%	Baseline Annual Program completion	MECS Annual Surveys	Schools, MECS, and PMU will coordinate for data collection
Net intake into Grade 1	90.6%	91.9%	97.8%	84.8%*	Baseline Program completion	MECS Annual Surveys	Schools, MECS, and PMU will coordinate for data collection
Transition ratio from primary to secondary	93.7%	93.7%	97.6%	Not calculated	Annual	MECS Annual Surveys	Schools, MECS, and PMU will coordinate for data collection
Completed baseline measures of Grade 5 achievement in rural schools	N/A N/A	N/A N/A	37.5(reading) 40.4 (Math)	100%	Program Completion	MECS Annual Surveys	Schools, MECS, and PMU will coordinate for data collection
GER of pre-school education	53.9%	54.3%	57.1%	72.7%	Annual	MECS Annual Surveys	Schools, MECS, and PMU will coordinate for data collection
Intermediate Outcome Indicators							
1. **Improve access to basic education (Grades 1-12) through improvement of facilities and expanding supply of places**						PMU Progress Reports; Aide-memoires	PMU

a) Number of rural schools and dormitories rehabilitated	-	21	24	30	Annual		
b) Number of new schools built and places provided	-	-	2	1	Annual		
c) Number of new pieces of furniture and equipment supplied	-	50	259	66	Annual		
2. **Improved quality in basic education**							
a) Provision of in-service training in teaching methods in five subjects in primary and secondary schools and to Grade 1 and dormitory teachers	-	50	4,814	1,962	Annual	PMU Progress Reports; Aide-memoires	PMU, MECS
b) Improving facilities of pre-school teachers college	-	-	-	1	Annual		
c) Provision of laboratories and learning centers to teachers' college in UB	-	-	7	-	Annual		
d) Provision of ICT mobile units to enrich teaching and learning experiences;	-	550	-	-	Annual		
e) Using Grade 5 assessment results to inform student assessment	N/A	N/A	N/A	100%	Program Completion		
f) Conducting a workshop on quality to discuss means for sector improvement	-	-	-	1	Program Completion		

3. **Extend access to pre-school education in rural areas**						PMU Progress Reports; Aide-memoires	PMU
a) Deployment of mobile ger pre-schools	-	50	21	100	Annual		
b) Supply of furniture, equipment and learning materials to ger pre-schools;	-	100%	100%	100%	Annual		
c) Rehabilitation of kindergarten teachers' college	-	-	-	1	Annual		
4. **Enhance program management and improve donor coordination**						PMU Progress Reports; Aide-memoires	PMU, World Bank
a) Establishment of EDCM to supervise and approve EFA-FTI technical proposal and procurement plan;	-	1	-	-	Program Inception		
b) Establish a PMU with ADB's Project Director as head and a deputy director for EFA-FTI management;	-	1	-	-	Program Inception		
c) Conduct joint supervision missions with donors and report findings to EDCM;	-	1	2	2	Annual		
d) Number of program staff trained	-	-	4	3	Annual		

*Due to the new policy of lowering the grade 1 in-take age from 7 to 6 in 2008-9 school year, there is a decline in intake rate and GER in primary education

ANNEX 4: EFA-FTI Physical Outputs 2007, 2008, and 2009

	2007					2008					2009				
EFA-FTI Outputs	**Nat. Total**	**Target**	**Actual**	**Actual as % of Target**	**FTI Coverage as % of National Total**	**National Total**	**Target**	**Actual**	**Actual as % of Target**	**FTI Coverage as % of National Total**	**National Total**	**Target**	**Actual**	**Actual as % of Target**	**FTI Coverage as % of National Total**
Training															
Math and ICT training for primary teachers	7,694	3000 **	2,200	73%	29%							1,962	1,962	100%	100%
UB teachers' college teachers	46	46	46	100%	100%										
Ger preschool principals and teachers	-	200*	50	25%	25%		42	63	150%	32%					
Teachers of 6 year-olds						1,432	1,432	1449***	101%	101%	1,602	1,602	1,602	100%	100%
School Manager of 6-yea- olds						580	580	532	92%	92%					
Dormitory of 6- year olds						500	500	590***	118%	118%					
Social workers of 6-year-olds											560	560	560	100%	100%
Goods															
Desk and chairs for 6 year olds (# classrooms)	1,320	100	100	100%	8%	1,320	675	675	100%	51%					
Dormitory facilities (# dormitories)	501	50	50	100%	10%	501	21	0	0%	0%					
Ger preschool	-	50	50	100%	-	-	21	21	100%	-		100	0		
Mobile teaching stations (# primary schools)	597	550	550	100%	92%										
E-textbooks and interactive materials for primary teachers (# teachers)	7,694	3,000	6,000	200%	78%										
Equipment and		8	8	100%											

	2007					2008					2009				
EFA-FTI Outputs	**Nat. Total**	**Target**	**Actual**	**Actual as % of Target**	**FTI Coverage as % of National Total**	**National Total**	**Target**	**Actual**	**Actual as % of Target**	**FTI Coverage as % of National Total**	**National Total**	**Target**	**Actual**	**Actual as % of Target**	**FTI Coverage as % of National Total**
furniture for UB teachers' college (# labs)	-														
Equipment and furniture for 3 teachers' colleges (# labs)	-					-	27	27	100 %						
Teaching kits and learning materials for 6 year olds (# classrooms)						1,320	1,750****	0							
Furniture and equipment for Huvsgul and Uvurkhangai school complex	-	2	2	100%											
Furniture and equipment for Bagannuur school complex							1	0							
Civil Works															
New school construction	-	2	2	100%		-	1	0							
Rehabilitation of school buildings (# buildings)	-	20	20	100%		-	21	16	76%	-		30	26	87%	
Rehabilitation of Teachers training colleges (# buildings)	4	1	1	100%		-	3	3	100%	100%-		1	1	100%	
Well construction	-	20	19	95%		-	8	8	100%	-		14	14	100%	
Dormitory facilities (# dormitories)	501	30	30	100%		5	0	0				17	0		

*Target # in 2007 Technical Proposal to be trained as mobile preschool teachers
**English teachers were planned to be trained but dropped later
***Target remaining for 2008 was estimate done at the end of 2007 but actual number changed in 2008
**** The remaining 430 classrooms for 7 year olds students.

ANNEX 5: Program Costs

Expenditure category	2007 Planned	2008 Planned	2009 Planned	Expenditure Category as Percentage of Total Expenditure	Total
CIVIL WORKS	4,205,000	4,613,200	5,947,500	50.2%	14,765,700
GOODS	3,284,461	3,970,768	5,336,500	42.8%	12,591,729
CONSULTANT SERVICES	111,000	274,032	194,800	2.0%	579,832
TRAINING	569,539	12,000	750,000	4.5%	1,331,539
OPERATIONAL COST	30,000	30,000	71,200	0.4%	131,200
GRAND TOTAL	8,200,000	8,900,000	12,300,000	100.0%	29,400,000

ANNEX 6: Implementation Arrangements

1. Participating parties ensure the management mechanism of the EFA-FTI program. This is consistent with the overall management structure of the Education Sector Master Plan implementation and the sector-wide approach. At the management level, the Ministry of Education, Culture, and Science (MECS), in cooperation with the Education Donors' Consultative Mechanism (EDCM) and the Trustee of the EFA-FTI Partnership, leads the program activities and strategies. The center piece of the implementation mechanism is the EDCM that oversees the implementation of the EFA-FTI program. The EDCM endorses action plans, progress reports, and performs overall coordination. MECS submits all progress reports and action plans to the EDCM for review and action. The PMU is responsible for everyday implementation of the EFA-FTI program at the operational level.

2. *The Ministry of Education, Culture, and Science*

The principal executing agency of the program is the MECS, which leads participating parties based on the sector-wide approach framework.

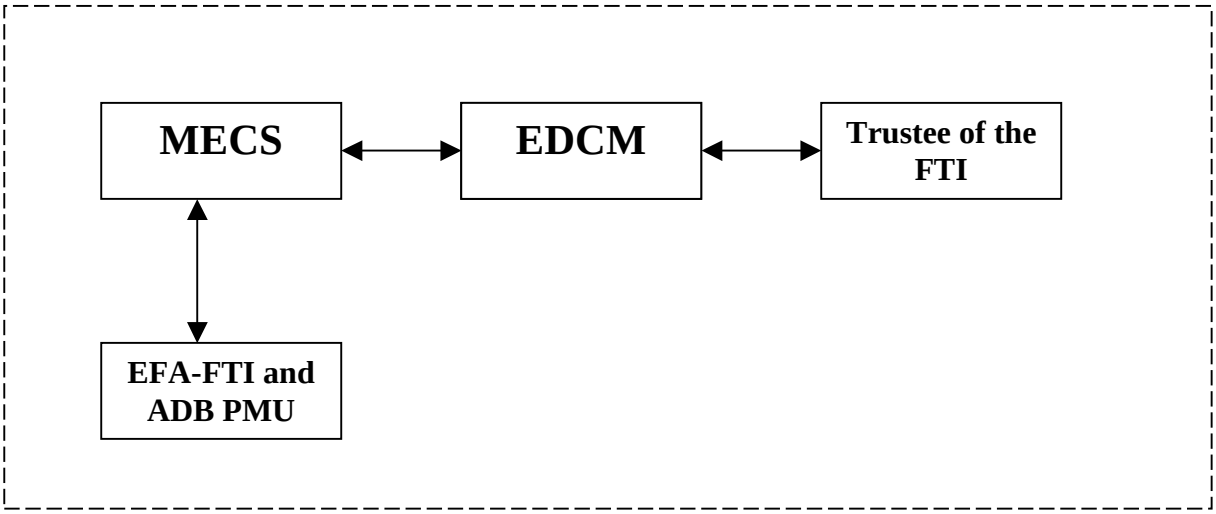
3. *The Education Donors' Consultative Mechanism*

The Education Donors' Consultative Mechanism coordinates implementation of the EFA-FTI program with other donors' activities, assists in program planning and implementation, shares information, and monitors the overall process of the program as articulated in terms of reference that was approved by the EDCM in 2007.

4. *The Trustee of the EFA-FTI Partnership*

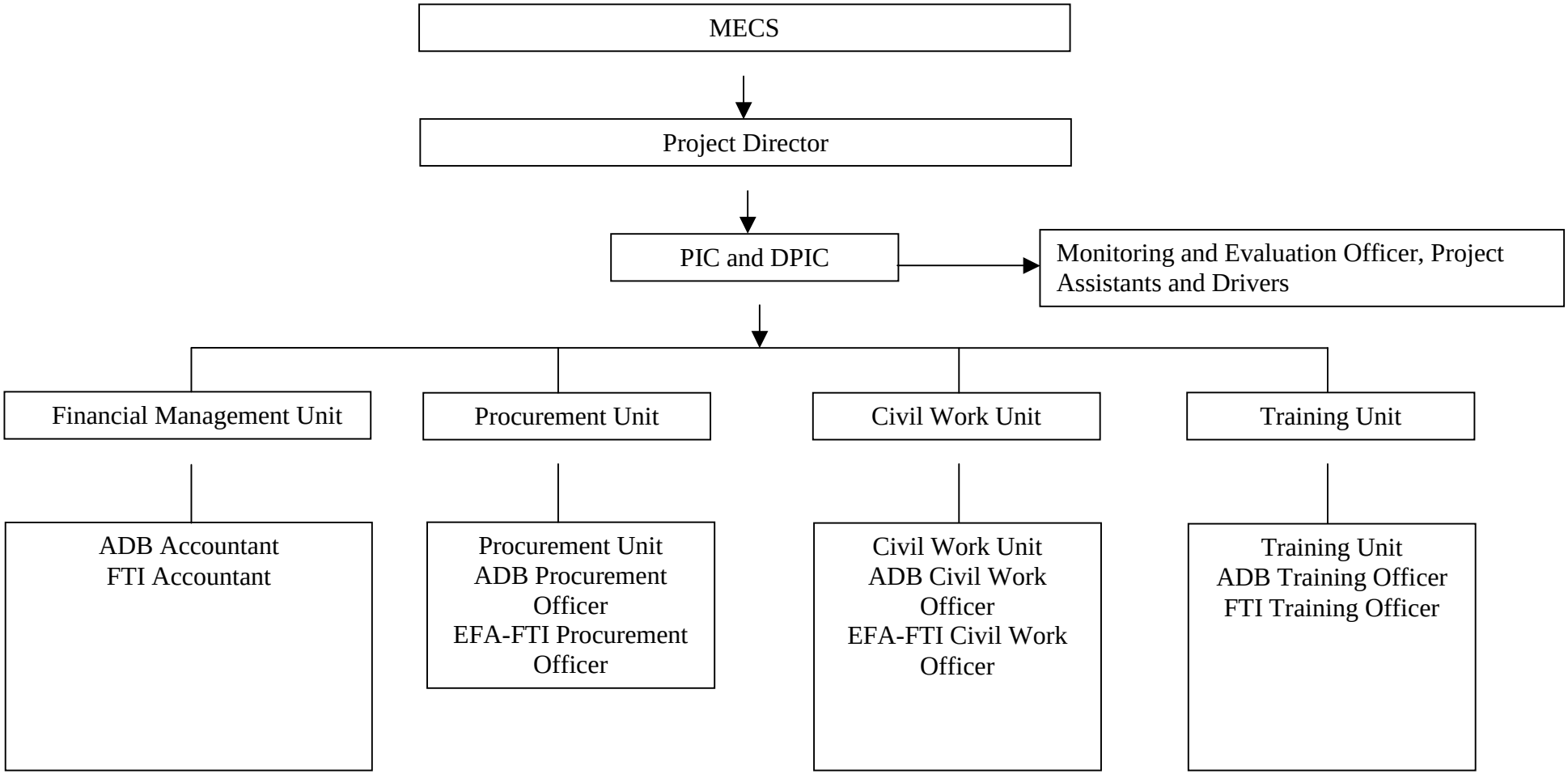
The Trustee of the EFA-FTI Partnership will oversee the general implementation of the program as articulated in the Memorandum of Understanding between the trustees of EFA-FTI.

Organizational Chart of Overall Coordination and Implementation of the EFA-FTI



The PMU

5. The Program Management Unit is in charge of day-to-day operation. The EFA-FTI program implementation follows the World Bank's procurement and financial rules under the Memorandum of Understanding signed by MECS, ADB, and WB (as a trustee of EFA-FTI funds). Under MECS, the existing ADB PMU is strengthened using EFA-FTI funds to be able to implement EFA-FTI activities by hiring a Deputy Program Implementation Coordinator (DPIC). The DPIC is responsible for daily operation of the EFA-FTI Program. The DPIC is assisted by a Finance Officer, a Procurement Officer, a Civil Works Officer, a Training Officer, a Monitoring and Evaluation Officer, a Program Assistant and a Driver. These new staff members are integrated into the existing ADB Project Management Unit structure. This means that the financial, procurement, and construction works officers are placed under the existing financial, procurement and civil works units, respectively. These officers are responsible for the implementation of EFA-FTI only and follow World Bank procurement and financial management requirements. Integration also means that both the Project Implementation Coordinator (PIC) and the DPIC will be responsible for the implementation of EFA-FTI and ADB-funded projects.


MECS
Project Director
PIC and DPIC
Monitoring and Evaluation Officer, Project Assistants and Drivers
Financial Management Unit
Procurement Unit
Civil Work Unit
Training Unit
ADB Accountant
FTI Accountant
Procurement Unit
ADB Procurement Officer
EFA-FTI Procurement Officer
Civil Work Unit
ADB Civil Work Officer
EFA-FTI Civil Work Officer
Training Unit
ADB Training Officer
FTI Training Officer

ANNEX 7: Financial Management and Disbursement Arrangements

Executive Summary

1. The Financial Management team has conducted an update of the assessment of the adequacy of financial management system of the Fast Track Initiative Catalytic (FTI) program for the Mongolia Fast Track Initiative Catalytic Fund Program (FTICFP or the "program"). The financial management arrangement of 2007 and 2008 tranches EFA-FTI grant (US$8.2 million and US$8.9 million) was previously assessed and deemed acceptable in December 2006. The assessment, based on guidelines issued by the Financial Management Sector Board on November 3, 2005, has concluded that the program continues to meet the minimum Bank financial management requirements, as stipulated in BP/OP 10.02. Financial management risk is that World Bank loan and grant proceeds will be not used for the purpose intended and is a combination of country, sector and program specific risk factors. The FM risk rating proposed for this program is moderate.

2. The grant proceeds continue to flow from the Bank into a program Designated Account (DA) established at a commercial bank and managed by the existing program management unit (PMU).

3. No outstanding audits or significant audit issues exist with the existing Program Management Unit (PMU) who will also continue to be responsible for the proposed 2009 tranche of the FTI program.

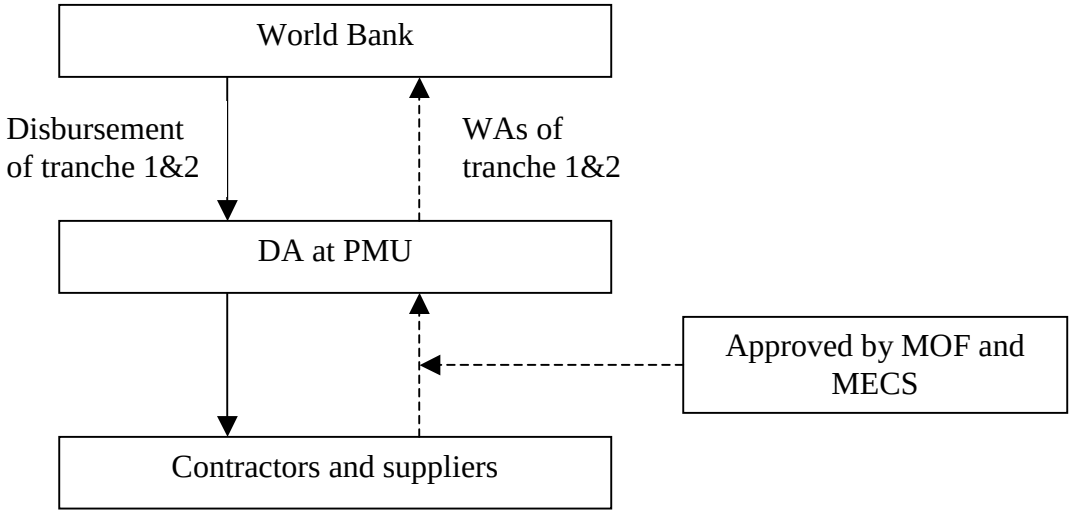
Audit Arrangements

4. The Bank's audit requirement does not change due to the 2009 tranche of the program. The 2009 tranche of the EFA-FTI program is included in the program financial statements. The annual audit report of the program financial statements is due to the Bank within 6 months after the end of each calendar year.

Disbursement Arrangements

5. Disbursement method: Advance method is adopted by the program. To facilitate the 2009 tranche program disbursement, the existing segregated designated account (DA) for 2007 and 2008 tranches will continue to be used for the disbursement of 2009 tranche, which was opened at a commercial bank acceptable to the Bank and managed by the PMU. The DA would disburse against all eligible program expenditures listed in the Annex of Grant Agreement.

6. The flow of funds and withdrawal applications is still as follows:



7. One Operating Account (OA) is opened at a commercial bank and managed by the PMU. This account is used to finance reasonable expenditures related to day-to-day program management activities. These expenditures are mostly in small amounts related to program operating costs such as telephone, communications, equipment maintenance, consumables and other small charges.

8. The funds in the DA are further advanced to the OA, on the basis of the quarterly budget for incremental operating costs prepared by the PMU and approved by the MOF. Deputy Program Coordinator and Financial Officer at PMU do primary and secondary approval for the payment respectively. The advances in the OA are accounted for and reconciled with the DA when preparing the quarterly IFRs.

Risk Assessment and Mitigation

9. In order to satisfy the Bank's minimum financial management requirements, the overall risks and corresponding mitigating measures are summarized below:

Risk	Risk Mitigating Measures Incorporated into Project	Risk Rating after Mitigating Measures	Conditions of Effectiveness
Inherent Risk			
• Country level	**Ring-fenced control is used and maintained for this program**	Substantial	-
• Entity Level	A dedicated PMU has committed to manage and implement this program.	Low	-
• Program level	Sound program financial management system is in place to mitigate the risks of complex program design. See comments below.	Moderate	-
Control Risk			
• Budgeting	Program annual and semi-annual plan is prepared by the PMU consistent with the timing of program activities. Significant variances between actual and budgeted amounts are disclosed in the progress reports.	Moderate	-
• Accounting	a) The FMM has been developed and adopted. b) A qualified financial officer is in place and performance thus far has been satisfactory.	Low	-
• Internal Control	a) Overall program monitoring on program implementation by MECS and Education Donors Consultative Mechanism (EDCM) b) Compliance with FMM c) Appropriate roles and responsibilities and segregation of duties for PMU staff. d) Regular review on FMR and supervision by the Bank. e) Bank's no objection for significant activities.	Moderate	-

Risk	Risk Mitigating Measures Incorporated into Program	Risk Rating after Mitigating Measures	Conditions of Effectiveness
Control Risk			
• Funds Flow	a) Proper authorization mechanism for withdrawal applications and payment requests. b) Straight forward funds flow arrangement. c) Proper DA arrangement and management.	Low	-
• Financial Reporting	a) IFRs in format and content have been satisfactory to the Bank. b) IFRs submitted on a quarterly basis for the Bank review.	Low	-
• Auditing	Appoint an independent audit firm, with proper terms of reference and acceptable to the Bank. This will be accomplished as part of the Mongolia Audit Bundling process. The results of the audits on this program thus far have been satisfactory.	Moderate	-

Therefore, the overall FM risk-rating assigned to this program is Moderate.

Implementation Entity

10. MECS is the principal executing agency of the program. Under MECS, the PMU is responsible for daily program implementation activities including procurement and financial management. Its Executive Director has the dual role of being the Director of the ADB-funded Education Development Program to ensure greater coordination among donors. The deputy director is in charge of daily operation of EFA-FTI. Six other program staff members are responsible for procurement, financial management, training, civil work, monitoring and evaluation, program assistance and driving.

Budgeting

11. The PMU continues to prepare annual and semi-annual work plans and financial plans, which will identify the detailed program activities to be undertaken and the roles of different parties in implementation. The work plan and financial plan are submitted to the MECS and EDCM for approval, and thereafter to the Bank for no objection.

Accounting

12. The administration, accounting and reporting of the program is set up in accordance with Bank requirements. The PMU adopted the cash basis of accounting for preparation of the financial statements of the program. Consistent with IPSAS requirements, the financial statements include the following:

- Balance sheet;
- Statement of sources of funds and uses of funds;
- Statement of uses of funds by program activities;
- Designated account statement; and
- Notes to the financial statements

Internal Controls and Internal Auditing

13. No changes are noted since the prior FM Assessment. Internal controls for this program have been operating effectively.

Financial Reporting

14. Unaudited interim financial reports (IFRs) are being submitted by PMU to the Bank for review on a quarterly basis (prior to May 15, August 15, November 15 and February 15 of the subsequent quarter).

Supervision Plan

15. The supervision strategy for this program is based on its FM risk rating, which is evaluated on regular basis by the FMS and in consultation with relevant task team.

ANNEX 8: Procurement Arrangements

A General

1. Procurement is carried out in accordance with the World Bank's "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004 and revised in October 2006; and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 and revised in October 2006, and the provisions stipulated in the Legal Agreement. The description of various items under different expenditure categories is presented below. For each contract to be financed by the Program, the different procurement methods or consultant selection methods, the need for prequalification, estimated costs, prior review requirements, and time frame are agreed between the Borrower and the Bank program team in the Procurement Plan. The first procurement plan covers the initial 18 months period and is updated annually or as required to reflect the actual program implementation needs and improvements in institutional capacity. The breakdown of program costs is presented in Annex 5.

2**.** **Procurement of Works**: About US$ 13 million worth of works will be financed under the Program. Works procured under this program, would include: Construction of a new school complex, renovation of old school buildings and etc. The procurement will be done using the Bank's Standard Bidding Documents (SBD) for all ICB and National SBD agreed with (or satisfactory to) the Bank.

(i). *International Competitive Bidding (ICB):.* Any contract for works estimated to cost US$1,000,000 equivalent or more would be procured under ICB procedures specified in the Procurement Guidelines.

(ii). *National Competitive Bidding (NCB):* Any contract for works with cost estimate of less than US$1,000,000 would be procured under NCB procedures specified in the Procurement Guidelines and Special NCB procedure agreed with the Bank.

(iii) *Shopping.* Any contract for works with cost estimate of less than US$300,000 equivalent per contract would be procured under shopping procedures as specified in Para. 3.5 of the Procurement Guidelines.

3**.** **Procurement of Goods:** About US$ 11.9 million worth of goods would be procured under this program such as school and dormitory furniture, training materials and equipment and etc. The procurement will be done using Bank's Standard Bidding Documents for all ICB procurement.

(i). International Competitive Bidding (ICB). Any contract for goods estimated to cost US$500,000 equivalent or more would be procured under ICB procedures specified in the Procurement Guidelines.

(ii). ***National Competitive Bidding (NCB):*** Any contract for goods with cost estimate of less than US$500,000 would be procured under NCB procedures specified in the Procurement Guidelines and Special NCB procedure agreed with the Bank.

(iii). ***Shopping.*** Any contract for goods with cost estimate of less than US$200,000 equivalent per contract would be procured under shopping procedures as specified in Para. 3.5 of the Procurement Guidelines.

(iv). Direct Contracting. Equipment including standard software with proprietary nature and obtained only from one sources or which meet other circumstances as specified in Para. 3.6 of the Procurement Guidelines would be procured on the basis of direct contracting.

4**.** **Selection of Consultants.** About US$0.72 million of consultant services would be required under this program. The consulting services would include training of primary school teachers and design of construction works.

(i) **Selection of Consulting Firms**: The consulting contracts expected to cost more than US$200,000 equivalent per contract will use the Quality and Cost Based Selection (QCBS) in conformity with paras. 2.1 through 2.31 of the Guidelines. The Selection Based on Consultants Qualifications (CQS) would be used for contracts estimated to cost less than US$200,000 equivalent per contract. For the selection of auditors, Least Cost Selection (LCS) would be used. Under the circumstances described in paragraph 3.10 of the Consultants Guidelines, consultants may be selected and awarded on a sole-source basis, subject to the Bank's prior approval.

(ii) **Selection of Individual Consultants**: Individual consultants would be selected and awarded in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultants Guidelines. Under the circumstances described in paragraph 5.4 of the Consultants Guidelines, individual consultants may be selected and awarded on a sole-source basis, subject to the Bank's prior approval.

5**.** **Training, workshops and Study Tours**: About US$1.08 million for training workshops and study tours would be required. Detailed programs will be developed by the Program Management Unit (PMU) during program implementation and included in program annual work plan for Bank's review. Actual expenditures incurred in accordance with the approved detailed programs will be used as the basis for reimbursement.

6**.** **Operational Cost**: About US$ 0.14 million would be required for the program operational cost. These costs are largely related to office supply, translation and training materials printing, logistic cost for workshops etc.

B Assessment of the Agency's Capacity to Implement Procurement

7. Ministry of Education Culture & Science (MECS) of Mongolia is the executing agency for the Program. EFA-FTI will continue to be supported by a Program Management Unit (PMU). Procurement activities would be carried out by MECS through its PMU.

8. An assessment of the capacity of the implementing agency to implement procurement actions for the program was carried out by the Bank's Ulaabaatar Office in December 2006. During the assessment the overall program risk for procurement was set "High", and considering the past experience of the PMU, the risk rating proposed for this program at this stage is "Moderate".

C. Procurement Plan

9. The MECS has developed a draft initial 18 months procurement plan for program implementation, which provides the basis for the procurement methods. The plan would be agreed by the Recipient and the Bank team at appraisal. The procurement plan would be available at the PMU and MOF procurement website and would also be available in the program's database and on the Bank's external website. The plan would be updated in agreement with the program team annually or as required to reflect the actual program implementation needs and improvements in institutional capacity.

D World Bank Prior Review

10. All contracts in excess of US$300,000 for works and contracts in excess of US$200,000 for goods as well as contracts for consultant services in excess of US$100,000 for firms and in excess of US$50,000 for individuals and all contracts awarded under single source selection would be subject to prior review by the Bank. All other contracts would be subject to ex-post review by supervision missions, post review sampling ratio would be one out of five contracts.

E. Frequency of Procurement Supervision

11. In addition to the Bank's prior review, the capacity assessment of the Implementing Agency has recommended at least one supervision mission per year to visit the program to carry out ex post review of procurement actions.

Table 1: Thresholds for Procurement Methods and Prior Review

Procurement method		Threshold	Prior review Threshold
Goods	ICB	US$500,000	>US$200,000
	NCB	<US$500,000	>US$200,000
	Shopping	<US$200,000	
	Direct Contracting		
Civil Works	ICB	US$1,000,000	>US$300,000
	NCB	<US$1,000,000	>US$300,000
	Shopping	<US$300,000	
Consulting Services	QCBS	>US$200,000	
	CQS	<US$200,000	>US$100,000 for firms
	LCS		>US$100,000
	IC	Assignments which meet para.5.1-5.3 Guidelines	>US$50,000
	SSS		

ANNEX 9: Public Expenditure Analysis

Challenges

1. Mongolia's low population density, large territory and harsh winters make it difficult to deliver educational services and translate into high costs. Mongolia's educational expenditure-as a percentage of total public expenditure- is among the highest of the transition countries. This is, in part, due to the relatively high cost of delivering education services in the country. For instance, because of its sparse population and its nomadic culture, school dormitories play a key role in enabling rural children to access school. In addition, harsh winters also result in high expenditures for heating. Nearly 15 percent of total education expenditures in 2005 went to finance heating costs. Heating sources vary considerably by school location making it difficult to set national standards for heating costs and apply them consistently across schools.

2. Internal migration to urban areas challenges the survival of small rural schools and puts pressure on urban schools. Migration from the rural areas to the provincial centers and cities is a large and growing phenomenon in Mongolia. As a result, Mongolia is struggling to maintain school facilities in remote and rural areas, while at the same time face difficulty in meeting rising demand for education in urban areas. Migration results in falling student numbers on the sending end and rising student numbers on the receiving end, and both can result in inefficiencies for the system. The pupil-teacher ratio (PTR) in primary education in rural areas is 31:1 compared with 34:1 in Ulaanbaatar, on average. Declining school quality in rural areas appears to be contributing to migration to urban areas.[7]

Public financing of education

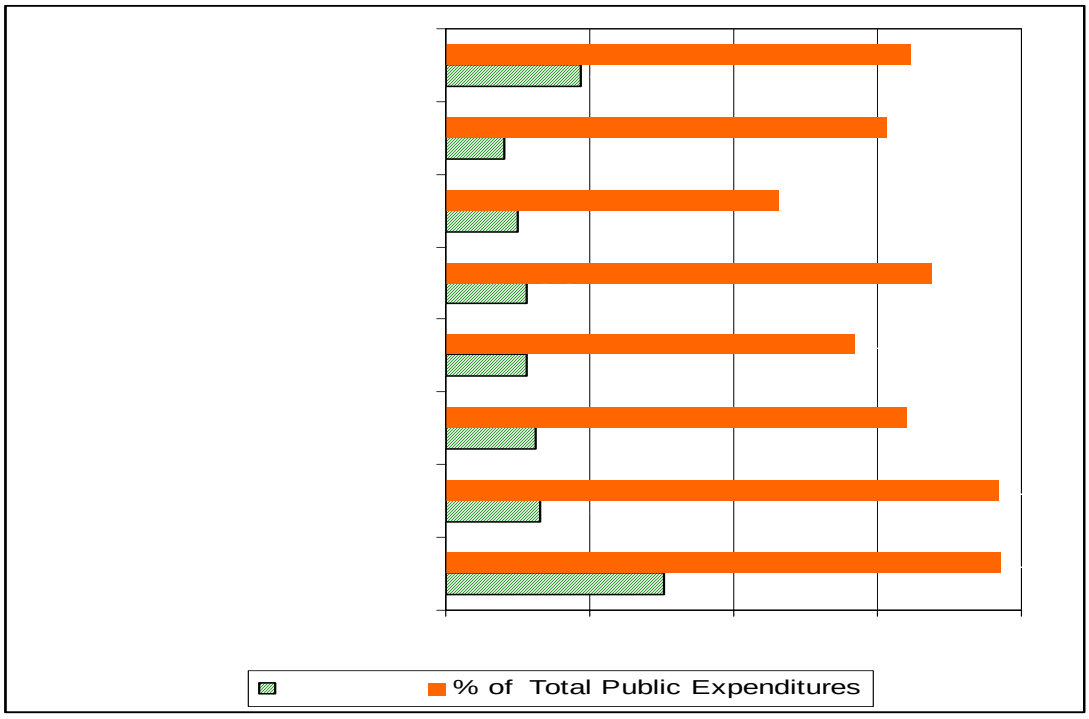
3. Education's share of government spending has recovered in recent years, after struggling throughout the transition period. Under the former, centrally planned system, education was given a high priority and received the largest share of government resources. After reaching a low of 16 percent of the government budget in 1997, education's share of the budget has begun to increase. Education expenditures followed GDP growth more closely increasing nearly 7 percent from 2004 to 2005 to 20 percent of total public expenditure. The Government of Mongolia's announced policy in regard to education spending is that the education's share of total government budget should be 20 percent. 2007 figures, however, fall below that threshold down to 15 percent.

4. Mongolia spends more on education than most low income countries. In terms of both expenditure as a percent of GDP and as a percent of total public expenditures, Mongolia spends more relative to other low income countries (cf. Annex 1). Total spending on education as a percent of total public expenditures was 19.1 in 2004 compared with an average of 16.2 for other developing countries in the Asia Pacific

[7] A 2005 report by Save the Children found that one-third of households in their survey reported their children's schooling, after seeking employment, as the most important reason for migrating.

region (Figure 1).[8] However, as previously mentioned, education services are more costly to deliver in Mongolia due to its low population density and harsh winters.

Figure 1: Comparison of Mongolian public spending on education with other countries



Source: UNECO Institute of Statistics -2004 data

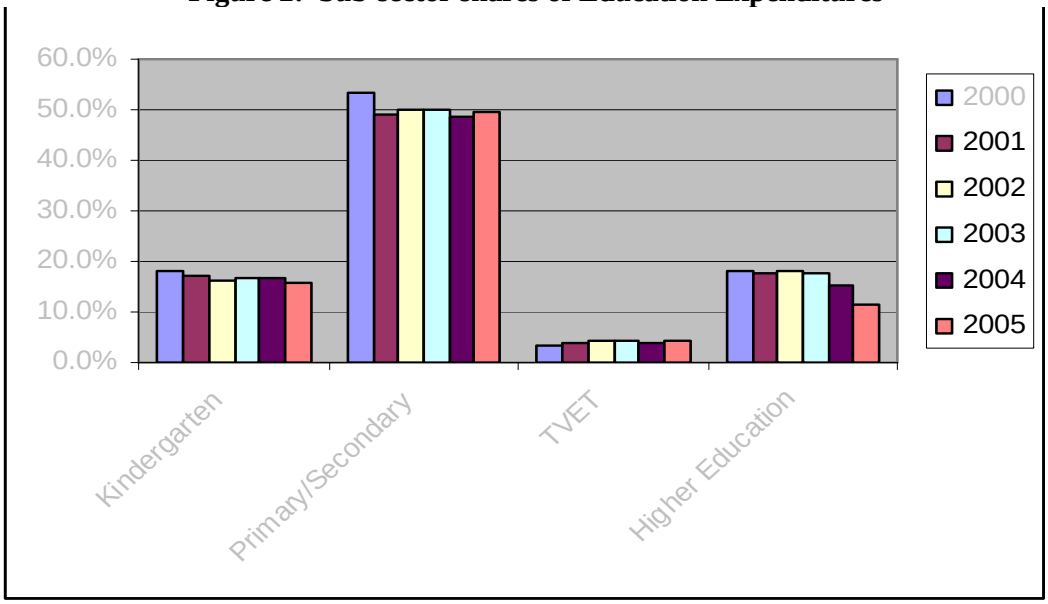
5. In recent years, expenditure in education has been weighted more towards primary and secondary education. Primary and secondary education is a priority of the Government and expenditures in this sector make up approximately half of overall education expenditures. Achieving the Millennium Development Goal of Universal Primary Education and strengthening basic education is important to the development of Mongolia and is listed as a priority area in the Government's 2007 draft National Development Strategy Plan. Although primary and secondary education received over 50 percent of the education budget, it accounts for 70 percent of all students in the Mongolian education system. In the near term as the system expands to 12 years, this sector will require additional resources to finance the additional grade level and achieve universalization targets. The share of spending for higher education has fallen in recent years, reflecting a reduction of state subsidy to the sub-sector that the Government believes can rely most on private financing (through tuition fees). Government spending on TVET and kindergarten has remained relatively consistent over the years. Funding for

[8] These figures exclude resources committed directly from donors or non-governmental organizations to schools that do not go through the government budget.

kindergartens may become more of a priority in the coming years to encourage on-time enrollment of six year-olds to grade 1. In 2007, expenditure per student at the primary level was $186 and $257 at the secondary level. Public per student expendure was $86 for TVET students and $200 for each tertiary student.

6. Education capital expenditures are very low, with the majority of funding going towards recurrent costs. Public spending on education covers both capital and recurrent expenditures. Since 2000, the average share of capital expenditures for the overall education sector was just 3 percent of total education expenditures. Given Mongolia's harsh climate and low population density, capital expenditures are important in maintaining school facilities that ensure children's enrollment in schools and an appropriate learning environment (particularly at the primary and secondary level). Continued rural to urban migration will require additional investments in capital maintenance and construction over the coming years including both new school construction in over-crowded urban areas and rehabilitation and renovation of under-capacity schools in rural areas. Low capital expenditures, however, are often offset by donor financing, which has been particularly focused in this area and which will be discussed in more detail below.

Figure 2: Sub-sector shares of Education Expenditures

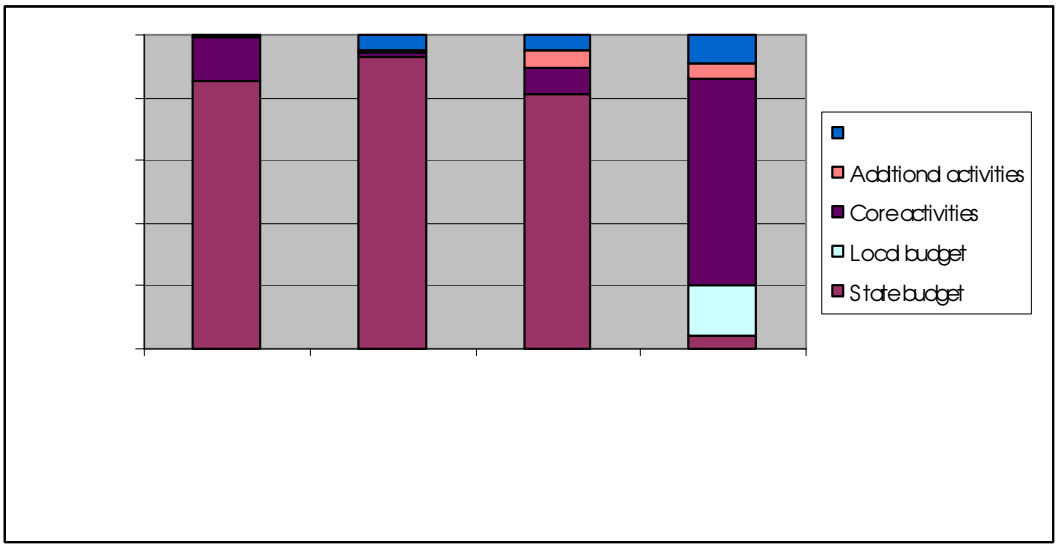


Source: Ministry of Finance (MoF) and Ministry of Education, Culture and Science (MECS).

7. While private spending comprises an increasing source of funding for higher education, the bulk of the funding for pre-tertiary education continues to come from the State budget. Since 1991, non-state participation in education has increased and schools have been more active in raising additional sources of revenue; however, State financing is by far the largest contributor to the education sector. At the primary and secondary level, the government provides food, and soon, textbooks, for free. Overall, state budget resources remain predominant, reaching an estimated 98 percent in 2006. High private

rates of return to higher education (85 percent relative to primary education) warrant less government subsidies to this sector (Figure 3). By contrast the TVET sector has relatively low private returns compared to neighboring countries (just 38 percent compared to 32 percent for upper secondary relative to primary) and this may be part of the government's rationale in highly subsidizing this sector.

Figure 3: 2006 Revenue Sources by Sector (%)



Source: Ministry of Finance (MOF) and Ministry of Education, Culture and Science (MECS). Core activities mainly include tuition fees.
Additional activities mainly include self-income generation of schools.

8. Although the State budget makes up a relatively smaller percentage of funds to higher education institutions, public funds continue to be channeled to these institutions through the Governments' financial aid program, the State Training Fund. Tuition fees comprise the largest source of financing for Higher Education Institutions (HEIs)-57 percent for public and 61 percent for private (Table 4). The funds raised by institutions from tuition fees are retained by the individual institutions to promote further investment and efficiency of spending. The government, however, continues to allocate a significant amount of resources to the sector through the State Training Fund, which gives grants and loans to students attending higher education. [9]

[9] The State Training Fund is a semi-governmental agency, governed by an independent board but operationally attached to MECS, which is responsible for the implementation of all state financial aid programs to higher education. Initially the program was designed to provide financial assistance to academically able, but disadvantaged students; however, the program has expanded over the years to include children of civil servants and the academically gifted.

Table 4: Sources of Funding of Higher Education Institutions (HEIs) 2003

	Sources of funding	All HEIs	By Type	
			State HEIs	Private HEIs
1	State budget	5.2%	7.1%	0.3%
2	State Training Fund*	23.6%	25.5%	19.0%
3	Tuition fees	57.8%	56.6%	61.3%
4	Income from non-core activities	5.6%	7.2%	1.5%
5	Donations, grants	2.7%	2.7%	2.6%
6	Programs and projects	2.3%	0.1%	7.7%
7	Other sources	2.8%	0.8%	7.6%
	Total	**100%**	**100%**	**100%**

Source: Ministry of Education, Culture and Science (MECS).

Note: The State Training Fund is the government's financial aid program for students attending both public and private institutions.

9. Mongolia has an active education donor community and their assistance is an important source of financing for the sector. As a result, more accurate information is now available on donor financing to the sector (See Table 5).[10]

Table 5: Current Donor Commitments for Education Sector by Level (In $US '000)

	2007	2008	2009
Total	28,994	13,699	14,009
Pre-primary	529	798	421
Primary & Secondary*	42,311	22,789	20,681
TVET	1,351	525	390
Higher Education	2,118	2,118	2,118

Source: Ministry of Education, Culture and Science (MECS)

Note: These figures include Catalytic Fund grant of $29.4 million.

10. Donor financing is focused on capital investments at the primary and secondary level. Donor contributions to the sector, both through loans and grants, have primarily financed capital expenditures. Most donors work with the Ministry of Education to determine which schools are in need of rehabilitation and new construction and implement these works through program implementation units.

11. Donor coordination has been improving in the sector in recent years with the establishment of the Education Donors Consultative Mechanism (EDCM) and through the development and donor endorsement of Mongolia's Education Sector Master Plan (2006-2015). The Master Plan identified a projected budget gap in the education sector,

[10] The EDCM was formed by the Ministry of Education in 2005 to engage the donors in the development of the Education Sector Master Plan (2006-2015). It is chaired by the Ministry of Education, with the Embassy of Japan and the Asian Development Bank as co-chairs. Other members include the World Bank, UNICEF, UNESCO, World Vision, Save the Children, GTZ, Volunteer Services Overseas, Mongolian Education Alliance and the Open Society Forum.

in part due to the expansion of the general education cycle to 12 years. This funding gap is now being addressed by the Fast Track Initiative's Catalytic Fund, which will provide grant resources to Mongolia's education sector of $ 29.4 million over the period 2007-2009. The Fast Track Initiative emphasizes donor collaboration and participation in monitoring the implementation of Catalytic Fund (CF) resources; therefore, the EDCM will play an active role in overseeing the implementation of CF resources and ensuring that donor activities support the overall implementation of the Master Plan. Over the longer-term, the goal would be for the EDCM to monitor the implementation of all donor projects and the Master Plan at large.

13. Schools are allocated resources based on the per-capita principle of money following students. The education budget distinguishes between *variable* and *fixed* costs. Fixed costs cover items such as heating, water, electricity and sewage, which are allocated based on past expenditures. Variable costs, on the other hand, are allocated to schools based on student enrollment using a per-student funding formula[11] and covers teacher salaries and other recurrent expenditures (teacher training, books, postage, communication costs, maintenance, etc.). The funding formula is based on a per-student amount that is proposed by MECS and MOF and approved annually by Parliament called the *normative mean.*

Rationale for Investing in Education

14. Mongolia has historically achieved exceptional educational outcomes compared to other countries with similar levels on income in the region. Net enrollments in primary and secondary school in 2000 were 90 percent and 67 percent, respectively (compared to 85 percent and 16 percent in Cambodia, another EFA-FTI country). However, the education sector was deeply affected by the economic transformations o f the 1990's. An adjustment package in the early 1990's reduced public education spending as a percentage of GDP to half of what it had been prior to the transition. Education expenditures recovered since the mid-1990's; between 1998 and 2004, they increased from 7 percent to 9 percent of GDP.

15. In recent years, Mongolia saw rapid migration out of rural areas. Urbanization has also produced an increase in the number of private schools in the main cities. Rural schools lost significant numbers of students and in an effort to rationalize the sector, many were closed. Moreover, due to the design of the school funding formula, rural schools with small enrollments struggle to cover basic recurrent expenditures. As a consequence of migration, the gap in resources across urban and rural schools has widened. The low population density of rural Mongolia explains the high costs of education provision on a per-pupil basis as well as the need for public investment in rural education. The structural economic changes brought about by the transition to a market economy changed the skills demanded and rewarded by the labor market.

[11] Since 1998, the government has required schools to use a funding formula based on student enrollment for budget planning for variable costs.

16. Disparities between urban and rural areas are present across many dimensions of educational outcomes. The 2002 LSMS revealed that four times more 8-12 year old children are out of school in the countryside than in UB and aimag centers. Moreover, among children of primary-school age, there are 38 times more dropouts in the countryside than in UB and 12 times more dropouts in the countryside than in aimag centers. Multivariate regression analysis reveals that even conditional on age, gender and grade, the likelihood of dropping out of school is significantly larger in kids living in rural areas. Through its effect on economic opportunities, education is an important determinant of poverty and inequality.

17. It is clear that Mongolia's education sector has much room for improvement. Mongolia highly values education, but because of limited resources, and a lack of discretionary funding at the local level and in schools, outcomes are not improving as quickly as they could. State budgetary allocations for basic education mainly cover salaries; hence there is a strong need for international donors to support other investments in the sector and the costs of teacher training.

ANNEX 10: Safeguard Policy Issues

1. The potential risks associated with the expansion of schools and construction of training centers include: (i) potential resettlement issues for the population located on the land on which schools will be expanded or training centers will be built; (ii) hygiene and sanitation issues linked with the construction of latrines; (iii) waste disposal of construction materials; (iv) loss of natural sites and biodiversity; and (v) nonfunctional equipment or construction defects leading to safety issues for users.

2. For this program, the impact is likely to be minor for several reasons: (i) all construction will take place on the sites of existing schools, and will therefore involve no resettlement; (ii) the construction program benefits from the experience of EFA-FTI, under whose auspices an environmental and social risk framework, relating specifically to school construction, has been developed; and (iii) technical specifications and standards have already been elaborated by the Government and used by the Contract Management Agencies proposed. Thus the program has not triggered any social safeguards and will be in full compliance with national environmental laws (listed below).

3. Due to the fact that the EFA-FTI program was approved by the Catalytic Fund Strategy Committee and not by the World Bank's Board of Executive Directors, an Environmental Assessment was not required and, hence, was not conducted at the time of preparation. The task team was aware that Mongolia has laws governing school safety, standards, and environmental management and that all civil works undertaken under the program comply with the laws.

4. The program finances remodeling, rehabilitation, and construction of buildings and dormitories, as well as the construction of one school complex. No acquisition of new land is involved in the entire civil works program. No relocation of people has occurred or is anticipated.

5. An Environmental Assessment was undertaken prior to the construction of the new school complex. The findings will be disclosed to the public through the Bank Office in Mongolia in Mongolian and the Infoshop at Bank Headquarters in Washington in English.

List of environmental laws in Mongolia

1. Constitution of Mongolia
2. Law on Environmental Protection
3. Law on Environmental Impact Assessment
4. Law on Land
5. Law on Land Fees
6. Law on Urban Water Supply and Sewage system
7. Law on Capital City
8. Law on Construction
9. Law on Household and Industrial Waste

List of Standards

Water standards	MNS 4586:1998
Drinking water standards	MNS 0900:1992
Standards on environmental and soil protection	MNS 3297:1991
Standards on rehabilitation of damaged soil	MNS 5914:2008
Standards on plantation of rehabilitated soil	MNS 5918:2008
Standards on use and maintenance of soil	MNS 5916:2008
Standards on urban development and planning	BNbD 30.01.04
Standards on planning civil work in earthquake zones	BNbD 22.01.01
Standards on use and protection of water sources	MNS 0017-1-1-10 79
Standards on fire security	BNbD 21.01.02
Standards on use of parameters of weather and geophysics	BNbD 2.01.01.93
Standards on measurement of earthquake proof in old buildings	BD 31 102 00
Standards on reinforcing brick construction	BD 31-106-03
Standards on selection of drinking water source	MNS 0899:92

ANNEX 11: Social Assessment

1. Social disparities exist with respect to educational outcomes in Mongolia, reflecting broader urban-rural socioeconomic differences in the country. Student achievement levels are lower in rural areas, as are enrollment and retention rates. The quality of schools was affected during the transition period in the early 1990's and rural schools in particular have had a difficult time since providing quality educational services. Rural schools lack adequate learning materials and well-trained teachers, and suffer from the challenges of remoteness and out migration to urban areas.

2. While there are significant differences in achievement and enrollment levels between rural and urban students, there are no aggregate differences in enrollment rates between boys and girls within schools. Additionally, there is no aggregate difference in completion rates for boys and girls, 87 percent and 90 percent respectively (LSMS 2002). However, high enrollment and completion rates do not reveal some disparities between genders in rural areas.

3. In rural areas, male participation rates are lower than female rates, because boys who herd have responsibilities which keep them out of school. Completion rates for boys in rural areas are often much lower than in urban areas on account of their herding responsibilities. Contrary to many other countries, resource strapped families in rural Mongolia may have a preference to educate girls, as boys are needed to herd livestock, and thus the opportunity cost of their time is higher than that of girls. Parental perceptions that a high level of education is not necessary for herder boys may also act as a disincentive for them to remain in school.

4. The 2000 national census first reported the trend o f rural to urban migration that began in the mid-1990's as large numbers o f rural families migrated to more urban areas, such as UB, aimag centers or less remote soums with well-functioning infrastructure. This large exodus has not only affected the funding of rural schools, but also their quality. As a result of migration, rural schools are experiencing declining enrollment numbers which affect financial resources they receive on a per-capita basis. Rural schools often rely on per-capita resources to fund recurrent expenditures such as heating, leaving little left to fund materials that contribute to education quality. The reduction in resources has also forced school officials to reduce the size of the teaching force and combine grade levels in classrooms, without proper changes in teaching practices to accommodate multi-grade students. Many of the most qualified teachers have also left rural areas for more urban areas where the pay is often higher and there are more available resources. PETS revealed that teachers in bagh and soum schools are 3.3 to 4.6 times more likely than those in urban areas to not have completed a teaching degree.

5. Declining school quality in rural areas also appears to be contributing to migration to urban areas. A 2005 report by Save the Children found that one-third of households in their survey reported their children's schooling or to give their children a better education, after seeking employment, as the most important reason for migrating. As further evidence of this trend, education was the most important reason for migration to

UB and Erdenet, the second largest city in the country. Declining school quality is thus both a push and pull factor for migration. In the long run, continued migration from rural to urban areas may also deteriorate the quality of urban schools which will face challenges of over-capacity and diverse needs of its student body.

6. There are a few ethnic minority groups in Mongolia and most live in rural areas. The largest of these groups is the Kazakh, whose student population is concentrated in the far Western aimag, Bayan-Ulgii. Overall, Kazakh schools appear to suffer from the same systematic deficiencies seen in other rural schools in Mongolia-lower overall quality, lack of learning materials and highly qualified teachers. Kazakhs have their own language and the government of Mongolia has taken actions to address this in an educational context by providing instruction and textbooks in Kazakh. Due to the remoteness of the region, many other donor-funded projects have not included Kazakh students as beneficiaries.

Rural-Urban Disparities in Schools and EFA-FTI

7. The program will attempt to address the disparities between rural and urban schools by supporting activities that will specifically benefit rural schools and provide them with the opportunity to improve their educational services. Program activities take into account specific constraints and needs faced by rural schools and have been designed under consultation with rural teachers, other development partners, and NGOs whom have worked in rural schools.

8. Of particular note, teachers lack the resources and appropriate training to prepare lessons based on principles of literacy. Other projects have piloted the development of clusters of teachers who can support each other and share ideas; and the program will build on this practice and strengthen existing clusters and/or create new clusters. As a result, the program will provide rural teachers with appropriate teaching books and professional development on ways in which to use classroom libraries to teach reading and writing. PETS documented that on average a rural school spends only 1.7 percent of its annual budget on staff training. Past interventions in teachers' training from local NGOs - while limited in coverage - proved to be successful in terms of teachers' responsiveness. Due to the current levels of investment in teacher training by rural schools, there is room for such an intervention to be effective. Teachers' willingness to participate in professional development has been confirmed by anecdotal evidence from field visits as well as evaluation of other Bank projects, such as Rural Education and Development.

9. Another keystone of the proposed lending program is its emphasis on monitoring and evaluation. To determine the extent and depth of issues in the basic education sector, Mongolia needs a better monitoring and evaluation system. While MECS tracks the progress of education through a set of monitoring indicators that are generally related to students, teachers and school facilities, the existing monitoring and evaluation system in the country is limited in its coverage, analysis and use for various reasons:

- Most of the data and information available pertains to inputs and outputs, with very little information on processes, quality and outcomes, especially learning outcomes.
- Analysis, evaluation and triangulation of the available data are not the norm, are mostly limited to the agreed surveys and policy papers under donor-funded projects, and are one-time events.
- Institutionalization of national level assessments has not happened, as a result of which there is currently no national assessment system to collect information on a regular basis on student learning and feed this information into education policy and planning. Although the READ project funded the Grade 5 assessment and participation in the international study of Trends in Mathematics and Science Studies, these are one-time events only.
- Monitoring and analysis of data is highly centralized, with schools reporting the required information to the capital in a bottom up fashion, and there is no linking of evidence generated from EMIS to planning.
- School outlays and budgets are not linked to outcomes, but rather inputs.

10. There is an urgent need to develop an EMIS system that is holistic in nature and informs and encourages healthy discourses about education issues in the country. There is also a need to build capacity of the Education Department at the aimag and soum levels to analyze data more critically and find local solutions to emerging issues.

ANNEX 12: Program Preparation and Supervision

	Planned	Actual
Signing of Grant Agreement	03/09/07	03/09/07
Mid-Term Review	09/01/08	09/16/08
Closing date	12/30/2009	

Key institutions responsible for preparation of the program:
Ministry of Education, Culture, and Science, Mongolia

Kin Bing Wu, Lead Education Specialist, led the overall preparation of this Program Appraisal Document and wrote Annexes 10 and 11. Prateek Tandon, Economist, is the primary author of the document and wrote the key sections on Mongolian education sector issues, the program description, education statistics, and the costs and financing of education. Gerelgua Tserengdagva, Procurement Analyst, wrote the procurement annex, and Lhagvasuren Ochir, Operations Officer, wrote the the financial management annex.

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ANNEX 13: Map – IBRD 37500

