Mongolia Compact

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UNITED STATES OF AMERICA

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Introduction

The Millennium Challenge Corporation (MCC) and the Government of Mongolia signed a five-year, $284.9 million compact in October 2007, designed to increase the country's economic growth and reduce poverty, by investing in five project areas:

- property rights;
- health;
- vocational education;
- energy and environment; and
- transportation.

Mongolia is a landlocked country in Asia covering 1.56 million square kilometers, roughly the size of Western Europe. Mongolia's limited, aging transportation infrastructure and young governing institutions have been shown to be significant constraints to economic growth and development. These constraints are acute given the pressures of the country's abrupt transition to a market economy, the loss of financial support from the Soviet Union, and the rapid urbanization of a population that was highly dispersed and pastoral. Nearly half of Mongolia's 2.6 million people live in the capital city of Ulaanbaatar, and approximately 60 percent are located along the north-south rail corridor between Russia and China.

In developing their proposal, Mongolia's National Council, the team formed by the government to develop their compact proposal, relied on the national development plan and poverty reduction strategy papers and on targeted consultations with sector experts and stakeholders. All five projects were designed to increase the productive capacity of Mongolians—both individuals and enterprises—and unlock opportunities for growth in domestic and regional economies. By the end of the compact in September 2013, the Government of Mongolia and MCC had spent 94 percent of the anticipated compact funds to increase land security, reduce impacts of non-communicable diseases and injuries, provide enhanced vocational training, expand distribution of energy-efficient household products, and construct roads for commercial traffic. The Government of Mongolia and MCC expect more than 2 million people to benefit over the 20-year lifetime of the investment. Further details of the compact results and impacts will be shared in forthcoming impact and performance evaluations.

Country Context

- Original Amount at Compact Signing:
  $284,911,363
- Amount spent:
  $268,993,805

- Signed:
  October 22, 2007
- Entry Into Force:
  September 17, 2008
- Closed:
  September 17, 2013

Estimated benefits at compact close correspond to $218.1 million of compact funds, where cost-benefit analysis was conducted.

- 2,057,532Estimated beneficiaries at compact closure over 20 years
- $134,000,000Estimated net benefits at compact closure over 20 years

Created with Highcharts 6.0.1Monitoring & EvaluationProgram AdministrationEnergy and Environment Project (EEP)Health ProjectNorth-South Road ProjectProperty Rights ProjectVocational Education Project (TVET)

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['Property Rights Project', 28543830.15],

['Vocational Education Project (TVET)', 49322727.09],

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- Compact Agreement
- M&E Plan
- M&E Plan

Energy and Environment Project

- $47,200,000Amount at Project Inception
- $40,420,819Total Disbursed

Estimated Benefits

Estimated Benefits for the Energy and Environment Project (EEP)

Time	Estimated Economic Rate of Return (ERR) over 20 years	Estimated beneficiaries over 20 years	Estimated net benefits over 20 years
At compact closure	60 percent	338,425	$38,200,000

Estimated benefits corresponds to $36.9 million of project funds, where cost-benefit analysis was conducted.

Project Description

Mongolia has an extremely harsh winter climate, and mid-winter temperatures in Ulaanbaatar, the capital, can drop to as low as minus-40 degrees. Nearly half of all Mongolians live there, the coldest capital city in the world and the world's second-most air polluted city. At levels of up to 10 times the international standards for particulate matter, air pollution is a major cause of serious respiratory problems among urban residents, contributing to increased health disability of the working population and decreased life expectancy. The primary source of the pollution comes from inefficient coal-burning stoves used to heat poorly insulated homes in the city's vast ger districts. These homes, typically constructed of traditional felt, are not connected to the city's heating grid. The Energy and Environment Project was designed to increase economic growth by reducing urban air pollution in the capital, decreasing related health costs, and lowering energy costs through more efficient fuel consumption. The project provided financial incentives for ger district residents to adopt energy-efficient and lower-emission technologies, and funded the upgrade of the electrical network. The project's Wind Activity supported the development and production of the first commercial wind-powered electricity generation facility in Mongolia, funding an upgrade to the Nalaikh substation and the installation of a training simulator for dispatchers in Ulaanbaatar's National Dispatching Center.

Additional funds were made available after the Rail Project was withdrawn from the compact.

Evaluation Findings

The Energy and Environment (Stove Subsidies component) Final Evaluation Report was released in December 2014 on the MCC Evaluation Catalog. A summary of key results includes:

- Participants in the EEP stove subsidy had 65 percent lower average nighttime household emissions of $PM_{2.5}$ compared to traditional stove owners and a .9ppm lower concentration of carbon monoxide emissions compared to baseline.
- Through data modeling, this is estimated to have resulted in 47 avoided deaths and 1,643 disability-adjusted life years (DALYs).
- There was no significant reduction in fuel consumption or expenditures, however.
- There was a significant increase in indoor temperature from 60.3 degrees to 63.6 degrees, suggesting household utilized the energy-efficient stoves to keep their homes warmer, rather than reduce fuel consumption.

Key performance indicators and outputs at compact end date

Key performance indicators and outputs at compact end date

Activity/Outcome	Key Performance Indicator	Baseline	End of Compact Target	Quarter 1 through Quarter 20 Actuals (as of Dec 2013)	Percent Compact Target Satisfied (as of Dec 2013)
Millennium Challenge Energy Efficiency Innovation Facility Activity	Heat Only Boilers (HOBs) sites upgraded	0	10	10	100%
	Subsidized stoves sold	0	No Target	103,255	No Target
Wind Activity	Power dispatched from substation (Million Kilowatt Hours) • Due to construction delays and incomplete works at compact end, power generation from the Wind Farm Activity did not meet the	0	112	12.1	11%

Activity/Outcome	Key Performance Indicator	Baseline	End of Compact Target	Quarter 1 through Quarter 20 Actuals (as of Dec 2013)	Percent Compact Target Satisfied (as of Dec 2013)
	indicator target.				

Health Project

- $17,027,119Original Compact Project Amount
- $41,873,776Total Disbursed

Estimated Benefits

Estimated Benefits for the Health Project

Time	Estimated Economic Rate of Return (ERR) over 20 years	Estimated beneficiaries over 20 years	Estimated net benefits over 20 years
At compact closure	13 percent	1,727,000	$12,800,000

Estimated benefits corresponds to $38.6 million of project funds, where cost-benefit analysis was conducted.

Project Description

In Mongolia, rates of non-communicable diseases and injuries (NCDI) such as cardiovascular diseases, cancer and traffic-accident induced injuries were a major cause of death and disability, particularly in younger age groups. This created a negative impact on the productivity of the country's labor force. The Health Project aimed to strengthen the national program for prevention, early diagnosis and management of NCDIs and address major causes and risks of NCDIs.

By the end of the Compact, more than 1.4 million health education materials had been disseminated, 49.7 percent of the target population had been screened for diabetes, and 6.5% of the target population of girls age 11-15 had received human papillomavirus vaccinations.

Additional funds were made available to this project after the Rail Project was withdrawn from the compact.

Evaluation Findings

The Health Project Final Process Evaluation Report was released in June 2014 on the MCC Evaluation Catalog. A summary of key results includes:

- Most activities in the Health Project were well-planned and implemented, resulting in a strengthening of Mongolia's health system.
- The Health Project strengthened a culture of quality and thoroughness of planning and analysis and stimulated a culture of efficiency and accountability in the health sector.

- The five-year compact implementation period was too short of an evaluation window for a complex program that was deeply embedded in the health system.
- Assessing the achievement of the ultimate goal of the Health Project, an overall increase in the life expectancy of the Mongolian population, was not possible within the timeframe of the project or immediately afterwards.

Key performance indicators and outputs at compact end date

Key performance indicators and outputs at compact end date

Activity/Outcome	Key Performance Indicator	Baseline	End of Compact Target	Quarter 1 through Quarter 20 Actuals (as of Dec 2013)	Percent Compact Target Satisfied (as of Dec 2013)
All Non Communicable Diseases and Injuries (NCDI) Activities	Amount of civil society grants (USD)	0	2,300,000	2,424,099	105%
NCDI Capacity Building Activity	Health staff trained	179	5,000	15,604	320%
	Primary healthcare facilities with non-communicable disease (NCD) services (%)	10.3	70	90.2	134%
	School teachers trained	0	565	65	100%
NCDI Early Detection Activity	Cervical cancer cases detected early (%)	38.4	46.8	52.6	169%
	Screening for hypertension (%)	0	66	58.27	88%
NCDI Management Activity	Cervical cancer cases detected early (%)	38.4	46.8	52.6	169%
	Screening for hypertension (%)	0	66	58.27	88%
NCDI Prevention	Cervical cancer cases detected early (%)	38.4	46.8	52.6	169%

Activity/Outcome	Key Performance Indicator	Baseline	End of Compact Target	Quarter 1 through Quarter 20 Actuals (as of Dec 2013)	Percent Compact Target Satisfied (as of Dec 2013)
Activity	Screening for hypertension (%)	0	66	58.27	88%

North-South Road Project

- $79,750,000Amount at Project Inception
- $74,775,867Total Disbursed

Estimated Benefits

Estimated Benefits for the North-South Road Project

Time	Estimated Economic Rate of Return (ERR) over 20 years	Estimated beneficiaries over 20 years	Estimated net benefits over 20 years
At compact closure	9.4 percent	161,000	$273,000,000

Estimated benefits corresponds to $74.77 million of project funds, where cost-benefit analysis was conducted.

Project Description

The North-South Road Project sought to mitigate Mongolia's inadequate transport infrastructure in a key segment of a critical economic corridor by constructing an all-weather road and connecting Mongolian markets to key trading partners.

Infrastructure is critical for the future development of Mongolia due to the country's small population and large geographic land area. Mongolia has vast mineral resources but lacked adequate and reliable road transport infrastructure. Nearly half of Mongolia's population is concentrated in Ulaanbaatar, and approximately 60 percent are located along the crucial economic road and rail corridor between Russia and China. A portion of this link, the Choir-Sainshand Road, was unpaved, forcing drivers to make frequent detours to avoid its potholes and deep trenches. The quality of the road, and the driving style required to navigate it, negatively impacted neighboring pastureland.

MCC funded the design of 19 additional kilometers to allow for construction on the entirety of the 176-kilometer road. Following approval of the project in 2009, significant increases in the cost of works for the North-South road led to a decision to re-allocate compact funds from the Bayanzurkh Bridge and the Ulaanbaatar-Nalaikh road to finance work on the Choir-Sainshand segment. These two investments of the project were dropped entirely.

Additional funds were made available after the Rail Project was withdrawn from the compact.

Evaluation Findings

MCC is planning an evaluation of the North-South Road Project that will measure road maintenance, annual traffic, and vehicle operating costs. The evaluation design will be posted in 2018, with the final report expected by 2020.

Key performance indicators and outputs at compact end date

Key performance indicators and outputs at compact end date

Activity/Outcome	Key Performance Indicator	Baseline	End of Compact Target	Quarter 1 through Quarter 20 Actuals (as of Dec 2013)	Percent Compact Target Satisfied (as of Dec 2013)
All Activities	Kilometers of roads completed	0	176.4	176.4	100%
	Kilometers of roads under design	0	20	19.3	97%
	Percent disbursed of road construction contracts	0	100	90.9	91%

Property Rights Project

- $23,062,286Original Compact Project Amount
- $28,543,830Total Disbursed

Estimated Benefits

Estimated Benefits for the Property Rights Project

Time	Estimated Economic Rate of Return (ERR) over 20 years	Estimated beneficiaries over 20 years	Estimated net benefits over 20 years
At compact closure	21.9 percent	102,168	$28,200,000

Estimated benefits corresponds to $28.2 million of project funds, where cost-benefit analysis was conducted.

Project Description

Many low-income rural Mongolians abandoned traditional nomadic herding practices and migrated to cities in search of better jobs and educational opportunities for their children. The bulk of these migrants moved to Mongolia's three biggest cities—Ulaanbaatar, Erdenet and Darkhan—where they either settled in suburban (ger) districts, rural or peri-urban areas in between urban and rural districts.

Mongolian law allows ger district residents the right to obtain ownership of the land upon which they live. The complexity and expense of the registration process made it difficult for these people to become property owners and fully realize the benefits of property ownership. The Property Rights Project sought to improve the national property registration system and help poor households obtain titles to land in ger districts. The project also facilitated the leasing of pastureland to herder groups in peri-urban areas and invested in infrastructure and training to improve livestock productivity and herder incomes in peri-urban areas.

By the end of the compact, 15 land registry office buildings had been renovated and received modern equipment, new processes for registering land rights had been introduced, and registry office personnel had been trained. 19357 poor households received land titles directly from the project. MCC also put in place a new land-leasing system for pasture areas around cities. This system provided 15-year pastureland leases to approximately 1,300 herder households, installed 346 wells on leased lands and provided water to most of these households, and trained herder groups on sustainable pasture use and livestock productivity.

Evaluation Findings

MCC is conducting four evaluations on the Property Rights Project, including an evaluation on each of the urban activities and two evaluations to cover the two phases of the peri-urban land leasing activity.

- A performance evaluation of the Land Registration System Activity attempts to measure changes in the time it takes to process a land transaction, including changes in time for the General State Registry (GASR) to approve land transactions and changes in time to access a loan using land and property as collateral. Baseline data was collected in 2013 and follow-up data will be collected in 2018.
- An impact evaluation of the Privatization of Ger Area Land Plots Activity aimed to measure changes in tenure, investments and land values. However, due to lower than expected numbers titled by the Property Rights Project combined with continued registration by non-Project control areas, there was insufficient power to continue the evaluation.
- Two impact evaluations of the peri-urban land leasing activity's two phases to analyze the effects on herder group and household behaviors, herd composition, grazing patterns, livestock productivity and rangeland quality. Baseline and interim data was collected in 2010-2011 and 2012-2013 for Phase 1 areas and in 2012 and 2014 for Phase 2 areas. Interim findings for Phase 1 areas found some evidence that herder behavior is changing as measured by shifts in herd composition toward improved breed milking cows and complementary reduction in percentage of goats, reduced herd size, reduced mortality of sheep and goats, increased likelihood to grow fodder crops and increased investment in immovable property. The shift toward improved breed cattle and more use of fodder is a crucial short-term behavioral impact that is expected to produce longer-term returns in the form of higher income, although at this stage no significant project impacts were found on livestock productivity or household incomes. Project impacts are expected to manifest over a period of several years and will be assessed in future survey rounds. The final data collection for Phase 1 and Phase 2 areas occurred in 2017 with a final report expected December 2018.

Key performance indicators and outputs at compact end date

Key performance indicators and outputs at compact end date

Activity/Outcome	Key Performance Indicator	Baseline	End of Compact Target	Quarter 1 through Quarter 20 Actuals (as of Dec 2013)	Percent Compact Target Satisfied (as of Dec 2013)
Improvement of Land Privatization and Registration	Legal and regulatory reforms adopted	0	6	5	85%

Activity/Outcome	Key Performance Indicator	Baseline	End of Compact Target	Quarter 1 through Quarter 20 Actuals (as of Dec 2013)	Percent Compact Target Satisfied (as of Dec 2013)
System Activity	Official cost prescribed for property transactions (first-time)	51.5	No Target	58.7	No Target
	Stakeholders trained	0	465	1,586	341%
Peri-Urban Land Leasing Activity	Leases awarded	0	465	387	83%
	Project herder groups limiting their livestock population to the carrying capacity of their leases on farms in 3 central aimags (Ulaanbataar, Darkhan and Erdenet) (%)	40	100	40.5	1%
	Stakeholders trained	0	1,515	2,334	154%
	Wells completed	0	420	346	82%
Privatization of Ger Area Land Plots Activity	Household land right formalized	0	52,995	19,357	37%
	Official cost prescribed for property transactions (first-time)	51.5	No Target	58.7	No Target
	Stakeholders trained	0	465	1,586	341%

Vocational Education (TVET) Project

- $25,512,856Original Compact Project Amount
- $49,322,727Total Disbursed

Estimated Benefits

Estimated Benefits for the Vocational Education Project (TVET)

Time	Estimated Economic Rate of Return (ERR) over 20 years	Estimated beneficiaries over 20 years	Estimated net benefits over 20 years
At compact closure	20 percent	170,000	$27,500,000

Estimated benefits corresponds to $49.2 million of project funds, where cost-benefit analysis was conducted.

Project Description

As the Mongolian economy transitioned to a market economy after the fall of the Soviet Union, its technical vocational education and training (TVET) system remained outdated and dysfunctional. The technical content of the trade and occupational courses no longer applied to increasingly sophisticated economy sectors. TVET Learning programs focused heavily on theory, and graduates had a reputation of being ill-equipped for the modern workplace.

In response to a growing economy's strong demand for skilled workers, the Vocational Education Project was designed to upgrade technical education and training. This would increase employment and income among the unemployed and marginally employed by improving technical skills and productivity, and by developing the TVET sector to become more responsive to labor market demands.

The project had five main components:

- policy and operational framework reform,
- implementing professional development programs for TVET instructors,
- updating curricula based on competency-based training standards,
- establishing a labor market information system, and
- providing state-of-the-art equipment.

By the end of the compact, nearly 12,000 students had graduated from MCC-supported educational facilities, 54 technology labs had been installed and upgraded, and 106 practical training sites had been modernized.

Additional funds were made available after the Rail Project was withdrawn from the compact.

Evaluation Findings

MCC is conducting a rigorous impact evaluation of the Improvement of Learning Environments activity of the Vocational Education Project to measure the impact of attending the TVET schools on students' academic achievements, skill levels, post-graduation employment rates, and salary levels. It is expected to be available in August 2018.

The remaining TVET project activities will be evaluated in a performance evaluation, expected to be available in May 2019.

Key performance indicators and outputs at compact end date

Key performance indicators and outputs at compact end date

Activity/Outcome	Key Performance Indicator	Baseline	End of Compact Target	Quarter 1 through Quarter 20 Actuals (as of Dec 2013)	Percent Compact Target Satisfied (as of Dec 2013)
All Activities	Students participating in MCC-supported education activities • Reported end-of-compact student participation and public-private partnership funding was based on preliminary monitoring data. An independent evaluation firm is currently	0	50,000	17,480	35%

Activity/Outcome	Key Performance Indicator	Baseline	End of Compact Target	Quarter 1 through Quarter 20 Actuals (as of Dec 2013)	Percent Compact Target Satisfied (as of Dec 2013)
	analyzing the final dataset that will be published as part of the impact evaluation results.				
Competency Based Training System Activity	Instructors trained	0	1,500	1,370	91%
Improvement of Learning Environment Activity	Educational facilities constructed or rehabilitated	0	18	18	100%
Reforms to TVET Framework and Operational Framework Acitivity	Public-Private Partnership (PPP) funcing contributed to Technical Vocational Education and Training (TVET) schools (%) • Non-governmental funding of vocational education (%) – Data from Ministry of Labor is not currently available. This figure includes only non-	1	16	2	7%

Activity/Outcome	Key Performance Indicator	Baseline	End of Compact Target	Quarter 1 through Quarter 20 Actuals (as of Dec 2013)	Percent Compact Target Satisfied (as of Dec 2013)
	governmental funding from private partners given directly to the schools. • Reported end-of-compact student participation and public-private partnership funding was based on preliminary monitoring data. An independent evaluation firm is currently analyzing the final dataset that will be published as part of the impact evaluation results.				
Skills and Standard Competencies Activity	Instructors trained	0	1,500	1,370	91%

Compact Changes

The Mongolia Compact included diverse projects that funded infrastructure and technical assistance. Because MCC compacts are a fixed amount implemented over five years, partner governments must focus on attaining compact results while balancing changes in costs, speed and feasibility of implementation.

- The original compact contemplated funding up to $188,300,000 to modernize the critical but antiquated freight rail system, but only if certain conditions for transparency were fulfilled by the Mongolian rail company's Russian partners. On April 27, 2009, the Government of Mongolia notified MCC that it intended to withdraw the Rail Project from the compact due to an inability to fulfill those conditions (see below). Following Board approval in December 2009, MCC executed a formal compact amendment in January 2010 that reallocated approximately $180 million from the Rail Project toward the expansion of the Health (roughly $8 million), Property Rights (roughly $25 million) and Education Projects (roughly $25 million), as well as the addition of the new North-South Road (roughly $75 million) and Energy and Environment Projects (roughly $47 million). All projects resulting from this reallocation were completed on time and within budget at compact close.
- The $79.7 million North-South Road Project was identified through close coordination with the government and other international financial institutions in Mongolia. As with the original compact development process, MCC worked closely with the government to consider the project's suitability for MCC funding, including its impact on addressing constraints to economic growth. The project filled an important gap in the key north-south economic corridor of the country by constructing Mongolia's first all-weather paved road running from its southern border with China to its northern border with Russia.
- Development of the $47.2 million Energy and Environment Project was a result of a collaborative effort with the government and other stakeholders to address the growing problem of winter-time air pollution in the capital city of Ulaanbaatar. A number of project proposals having both health and economic dimensions were reviewed, taking into consideration past efforts of air pollution reduction. The Energy and Environment Project design was developed after undergoing MCC due diligence and economic analysis. In addition, the project included a small component to support the development of Mongolia's first on-grid commercial wind farm—MCC's first investment in wind energy.
- MCC's fixed budgets and strict five year clock meant constant monitoring of compact programs' status, progress and viability. At the time the Mongolian Compact came to a close, $ 268,993,805.23 of the original budget of $284,911,363 had been expended, leaving approximately $15.9 million in funds returned to MCC to target new program funding.

Coordination and Partnerships

Close coordination with governments, the private sector, other international donors and development agencies saves time and money, avoids costly duplication and unsuccessful approaches, minimizes transaction costs for partner countries and is critical to the success of MCC compacts. Highlights of coordination during the Mongolia Compact are:

- In a demonstration of ownership over the compact activities, the Government of Mongolia committed to funding the recurrent costs of the NCDI program and screening and disease management activities for low-income people. The government also contributed additional funding to the Energy and Environment Project subsidy program.
- The Ministry of Economic Development and the Cabinet Secretariat committed to replicating MCA-Mongolia's project management strategies—program logic based on economic rates of return, projects that uphold international environmental and social standards, and diligent monitoring and evaluation.
- MCC's Environmental and Social Assessment unit worked closely with the government to develop and implement Hazardous Materials and Waste Management Guidelines, which resulted in the proper handling, transportation, storage, and disposal of asbestos, lead-based paint and other hazardous wastes during the rehabilitation of project sites. Due in large part to the exposure MCA-Mongolia gave to the issue, in 2010 the government banned the use of asbestos in construction materials.
- In the North-South Road Project, MCC and MCA-Mongolia used the Asian Development Bank's designs and environmental management plans for the 176-kilometer Choir-Sainshand Road, which enabled MCA-Mongolia to pick up an ambitious construction project with a limited timeframe remaining in the compact.
- The World Health Organization helped MCA-Mongolia produce technical guidelines for the Health Project and assisted with the technical training of staff involved in the project's screening activity. In the Health Project, Merck and Axios International were key private sector partners in the delivery of human papillomavirus vaccines. Merck covered the cost of the donated vaccines for the program in Mongolia, while all operational costs of implementation of the pilot program were covered by the project.
- The Property Rights Project made use of the results of the Asian Development Bank's Cadastral Survey and Land Registration Project and built upon previous efforts by the United Nations Development Program and the World Bank.
- In 2010 and 2011, MCC signed an interagency agreement with the Department of Energy's Lawrence Berkeley National Laboratory for technical support for stove testing and selection—as well as monitoring and evaluation—for the Energy and Environment Project. At the end of 2012, the Government of Mongolia officially became a partner in the Global Alliance for Clean Cookstoves, an initiative that was launched by the State Department in 2010.

Conditions Precedent

To encourage desired investment outcomes under the compact, MCC and the Government of Mongolia agreed that the following conditions precedent (CP) needed to be met before disbursing project funds.

Key Conditions Precedent

Key Compact Component(s)	Major Condition Precedent or Policy Reform Required	Rating
	LeaseCo Operation Activity Prior to investment in the Rail Project, UBTZ, owned jointly by the Government of Mongolia and the Government of Russia, shall allow its books to be audited.	
Health Project	**NCDI Capacity Building Activity** Provide increased budget allocations for NCDIs beginning 2013, which budget allocation shall be at least $1,000,000 per year.	
Property Rights Project	**Privatization of Ger Area Land Plots Activity**	
North-Sou Project		
Vocational Project (TV		
Energy and Project (EE		

Key Compact Component(s)	Major Condition Precedent or Policy Reform Required	Rating

Reducing Poverty Through Growth

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