**Mongolia**

**Consultation meeting with private sector representatives on draft World Bank Group Country Partnership Framework**

**January 29, 2019**

*This is a brief, informal summary of the issues raised during the meeting. If you were present and wish to make a correction or provide further information, please email to wbmongolia@worldbank.org.*

The World Bank Group (WBG) met with private sector representatives on January 29, 2018 to exchange views and recommendations as it prepares the new Country Partnership Framework (CPF) for Mongolia. The CPF identifies and prioritizes critical areas where the World Bank Group support would have the biggest impact in promoting sustainable poverty reduction and shared prosperity, from 2019 to 2024 .

The discussions focused on four guiding questions:

1. In your view, what should the principal objective of the World Bank’s strategy in Mongolia be for the next five years?

2. Do you think that the areas of engagement identified by the World Bank are appropriate? If not, what three principal development priorities would you propose?

3. What are the main risks that are likely to impede the implementation of the World Bank’s support in Mongolia?

4. Are there areas where you think the WBG should not engage in Mongolia?

Financial sector representatives flagged a number of areas that will benefit from the support from international donor community, both in the form of funding support as well as policy advice.

Private sector representatives noted that developing small and medium sized enterprises (SMEs) is for the country’s development. The recent scandal involving the state-run SME Development Fund has revealed the ineffectiveness of such public programs. The banking sector is keen to provide more SME financing, but high cost has been the key impediment. The participants requested the WBG and other IFIs to consider targeted, low cost funding, channeled through local commercial banks, to support the development of SMEs in the country.

In addition, local banking institutions have recently started developing green financing initiatives in Mongolia with the support of organizations like the Global Climate Fund. To make this into a broader and more inclusive financing mechanism that creates meaningful impact, funding support (in the form of seed financing) is being requested from the IFIs.

Policy advice and capacity development support is requested to improve the currently underdeveloped financial leasing and insurance subsectors. The existing regulatory environment lags behind international standards and is hindering the development of businesses and products in these subsectors.

Housing mortgage program is another area that the participants considered the WBG could have positive impact on. Recent changes in the program implemented by the government has made it far less inclusive and more like a social welfare program. The participants felt that this distorts the program’s main objective, which is to support middle-class citizens to become homeowners. WBG could have a role in helping the government refine the long-term objective and financing mechanism for this very important program.

Inflation is flagged as a key risk, for which not enough is being done by the government to reduce the risk. The participants highlighted that more than 50% of the inflation is supply-driven (meat, fuel, etc.) and has been so during all previous high inflationary cycles. Nevertheless, the government’s efforts to improve the sustainability and supply of these key goods was deemed insufficient and could benefit from policy advice from the WBG.

Other participants highlighted the need for reform and advice in the highly regulated energy and mining sectors to help steer the government on the right track. Key renewable energy developers welcome the recent amendments to the Renewable Energy Law, supported by the WB, which introduced more sustainable feed-in-tariffs. However, the newly introduced auction/tendering mechanism for selecting new projects is causing concerns due to the poor governance, lack of capacity and planning, at the authorities’ level. Experience from mining license auction process has shown the ineffectiveness and potential for abuse for such practices in Mongolia. This could create serious setback to an emerging industry such as the renewable energy sector. In view of this, the private sector developers requested the WBG to review the effectiveness of such mechanisms.

The participants stressed that the energy sector as a whole is in urgent need of reform and suggested more active policy advice from the WBG in terms of tariff liberalization, subsidy policy, and privatization. Foreign investment bank representatives also underlined that the current investment environment, especially licensing and payment issues caused by government policy, is preventing potential investment into the sector.

Worsening water scarcity in Mongolia’s Gobi region was raised as a serious concern. The participants pressed for WBG support in pressuring the government to consider the impact of its decisions made for the region in terms of water sensitivity. Suggestions to reduce the environmental impact of large mining and energy projects in the Gobi include incorporating newer technologies in renewable energy and energy storage, which despite having higher cost now, will continue to decrease in cost going forward.

In terms of ongoing WBG programs, the participants suggested that the export insurance mechanism under the export development project is important and similar programs should be expanded and further developed to support more local export-oriented producers. Participants also commented on the effects of the Asset Quality Review and resulting requirements on the banks. Some felt that the process had the unintended consequence of putting significant stress on the system due to the recapitalization requirement, reducing the banking sector capacity to grow and limiting its contribution to the local economy, including SMEs.