

**Document of
The World Bank Group**

CONSULTATION DRAFT

OF THE

COUNTRY PARTNERSHIP FRAMEWORK

FOR

MONGOLIA

FOR THE PERIOD FY20-FY24

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I. INTRODUCTION

1. **The year 2016 marked the 25th anniversary of the partnership between the World Bank Group and Mongolia.** In the earliest days, much of the WBG’s support was aimed at helping Mongolia to cope with the transition from a planned to a market economy. The sharp cut of external assistance necessitated support for survival and rehabilitation—keeping the mines and power plants operational and the coal deliveries on schedule—and on building the rudiments of a private sector and new financial and legal systems. Over the years, attention to poverty and human development deepened, as did support for rural livelihoods. More recently the WBG supported the development of the mining sector, including the Oyu Tolgoi (OT) copper and gold mine, and focused on stabilizing the economy following commodity price shocks in 2009 and 2014.

2. **The last WBG country strategy for Mongolia, the FY13–17 Country Partnership Strategy (CPS), was presented to the WBG Board of Directors on May 7, 2012.** The Mongolia Performance and Learning Review (PLR), which was shared with the WBG Board of Directors on December 16, 2016, extended the CPS by six months to the end of the calendar year 2017 and adjusted the results framework in light of considerable changes in the external environment and economic policies.

3. **The proposed Country Partnership Framework (CPF) covers the period FY20-24 and is going to be widely consulted between December 2018 and March 2019.** The CPF supports the government’s priorities and builds on the WBG’s comparative advantage. It has been informed by the 2018 Mongolia Systematic Country Diagnostic (SCD)¹ and comprehensive consultations in Mongolia in 2017², including a recent Client Survey. Public online consultations on the draft CPF program for FY20-24 will be open from December 15 to February 28, 2018³ and face to face consultations with the CPF team will be held in Mongolia in the week of January 28, 2019.

4. **The CPF is prepared at a critical juncture in Mongolia’s development.** Mongolia experienced a sharp economic downturn in 2016 and is currently undertaking significant economic reforms to stabilize the economy and set the country on a track to more sustainable growth. The government’s Economic Recovery Program has received financial support from the IMF’s Extended Fund Facility (EFF) and several other partners, including the WBG, ADB, China, Japan, and South Korea. The discovery of significant natural resources has resulted in rising expectations of its population and the transition towards a middle-income country brings new social and environmental challenges. Improving governance, enhancing competitiveness and further advances in human development while dealing with the consequences of climate change constitute key development challenges for Mongolia and are proposed as priorities in the CPF for the WBG’s engagement going forward.

¹ The SCD can be downloaded here: <http://documents.worldbank.org/curated/en/576101543874150141/Mongolia-Systematic-Country-Diagnostic>.

² The 2017 consultation report can be downloaded here: <https://consultations.worldbank.org/consultation/systematic-country-diagnostic-and-country-partnership-framework-mongolia>.

³ EN: <https://consultations.worldbank.org/consultation/systematic-country-diagnostic-and-country-partnership-framework-mongolia>

MN: <https://consultations.worldbank.org/mn/consultation/mongol-ulsyn-niygem-ediyin-zasgiyn-hogzhliyn-dun-shinzhilgee-bolon-mongol-ulstay>

II. COUNTRY CONTEXT AND DEVELOPMENT AGENDA

5. **Mongolia is a country with a rich nomadic culture, vast land and extreme climate conditions.** It is the least densely populated country in the world with 3 million people inhabiting a territory three times the size of France. Landlocked between Russia and China, the country places great importance on its relationships with its two powerful neighbors. About 1.4 million people live in the capital Ulaanbaatar and the rest are spread across small urban centers and vast steppes where people herd sheep, goats, horses, cattle, yaks and camels. Wintertime temperatures often dip below -30 degrees Celsius, growing and construction seasons are short, and natural productivity is low with arable land constituting only 1 percent of the total area. Nearly 30% of Mongolians continue to lead traditional nomadic pastoralism, moving up to four times a year in search of pastureland for their livestock. Herders are quick at adopting many technological advances, such as use of mobile phones, internet, modern vehicles, satellite TV, and solar panels, but their livelihoods are still vulnerable with livestock often their only source of income and alternate job opportunities scarce in rural areas.

6. **Since the early 1990s, Mongolia has successfully transitioned to a democratic country with a market-based economy.** The country adopted a new Constitution in 1992 and became a parliamentary republic. It has held seven legislative elections since, all of which were characterized as free and fair. Two parties - the Mongolian People's Party (MPP, previously known as the Mongolian People's Revolutionary Party) and the Democratic Party (DP) - have dominated the political scene, ruling in alternation and at times in coalition. The MPP, running on an economic reform program won a landslide victory in the last election of 2016, obtaining 65 out of 76 seats in Parliament. The last Presidential elections in 2017 resulted in the victory of the DP's candidate Khaltmaa Battulga. Freedom of expression in the political and public sphere is high with more than 500 media outlets operating in the country, and there is a growing influence of social media. Civil society is maturing, despite shortcomings in its institutional and financial capacity.

7. **The Mongolian economy experienced rapid growth over the last 15 years led by the mining sector and private sector development.** Exploitation of abundant mineral resources led to a doubling of the country's GDP in the last 10 years, shifting the country's traditional agricultural economy to a largely mining-driven economy. The country's largest project – the Oyu Tolgoi copper and gold mine – is expected to account for up to 30 percent of total GDP once operating at full scale by the early 2020s. The mining industry already contributes about 20 percent of GDP, and nearly 86 percent of total exports and the majority of foreign direct investment. However, the over-dependence on mineral wealth has made the economy highly susceptible to external shocks and contributed to boom-and-bust cycles. Recent increases in poverty, perceived increases in inequality, and patchy public services have left the public questioning the real impact of mining revenues on people's livelihoods despite the overall gains in per capita income.

8. **Mongolia is favored with key assets and has achieved strong development results since the 1990s.** Mongolia possesses world-class mineral deposits (e.g. coking coal, copper, gold), pasture land and pristine nature, proximity to the second largest economy in the world, and an educated population. It has demonstrated significant success in reducing poverty and elevating human well-being since its peaceful transformation into a market-oriented democracy in the early 1990s. In 2017, Mongolia ranked 51 out of 157 countries in the World Bank's Human Capital Index (HCI), which measures the amount of human capital that a child born today can expect to obtain at age 18. Mongolia's HCI is slightly higher than the average for its region and income group. In addition, Mongolia's Human Development Index, which combines health, education and income indicators, had a 27% increase between 1990 and 2015, and it is now in the high human development category. Life expectancy increased by over 9 years (from 60.3 to 69.8, for the same period), average years of schooling increased by 1.4 years (from 7.7 to 9.1) and national

income per capita (in 2011 PPP terms) grew at 3.3 percent a year, for a cumulative increase of 124 percent. Maternal mortality was halved during the past decade (from 100 to 50 per 100,000 live births), mobile phone networks cover 99% of the population, with 70% smartphone penetration. Participation in economic activities also increased with private investment rising from 12 percent of GDP in 1990 to 40 percent in 2012. Access to banking services is one of the highest in the world and financing expanded consistently.

9. **Notwithstanding its long-term achievements, the recent WBG's Strategic Country Diagnostic (SCD) for Mongolia identified three main challenges: unstable economic growth, population wellbeing at risk and growing environmental stress.** Over the last two and a half decades, the country has experienced three recessions, and entered six IMF programs (including the current EFF). The recurring boom-and-bust cycles put at risk past gains in standards of living and poverty reduction. In addition, low life expectancy, relative to comparison countries, and a growing incidence of non-communicable diseases pose serious risks to population well-being. With nearly half of the population living in *gers* inadequate housing is partly explaining population vulnerabilities due to limited access to sanitation, central heating, and transportation.

10. **Climate change and human action have brought about higher disaster risks and environmental degradation.** Over the last six decades, a growing frequency and severity of natural disasters (e.g., dzud, drought, and flood) has been observed as well as a clear upward trend in Mongolian average temperatures. These climate change factors, together with fast urbanization, mining industrialization, and low-productivity agriculture have increased pollution of air (Ulaanbaatar's air quality, especially in winter, is one of the worst in the world), water (total water withdrawals outstripping renewable water supply, often by at least 50% annually in some areas), and pasturelands (90 % of grassland under some degree of desertification). At the same time, the country also contributes to climate change with its carbon footprint having worsened significantly over the past decade mainly due to the expansion of mining exports, inefficient coal-fired electricity and heating services, and an increasingly motorized transport sector.

11. **Mongolia's rapid decline in poverty since 2010 was partly reversed in 2016, while the level of inequality has remained relatively stable in past years.** As defined by the official poverty estimates⁴, the poverty rate in Mongolia declined from 38.7 percent in 2010 to 21.6 percent in 2014, to rise again to 29.6 percent in 2016. This rise can be attributed in large part to the recent economic crisis. Rural poverty rates have been regularly higher than urban rates, but the gap has narrowed over the years. In 2010, rural and urban poverty rates were 49.0 and 33.1 percent, respectively, but in 2016 they declined to 34.9 and 27. Shared prosperity, that is the growth of welfare (as measured by consumption expenditures per capita) has been very similar between those at the bottom 40 percent of the distribution and the rest of the population. Between 2010 and 2016, the poorer 40% experienced a 2.0 percent annual growth in real household consumption expenditures, higher than the 1.4 percent of those at the top 60 percent of the distribution. These shared prosperity patterns have also been accompanied by a remarkably stable inequality in consumption. The Gini moved from 0.331 in 2010 to 0.323 in 2016.⁵

⁴ Official poverty rates are produced every second year by the National Statistics Office of Mongolia. It uses the cost of basic needs method and an official poverty line of 152,736 MNT per person/month in year 2016 (approximately 2.38 US\$/day at official exchange rate).

⁵ Household consumption is the welfare aggregate used in poverty and inequality estimates for Mongolia, Estimates of income inequality are much higher and more volatile, with Gini coefficients around 0.45 for year 2014 as per world Bank staff estimates. Further research is needed in this area.

12. **Mongolia continues to make progress in closing gender gaps in health and education, but important gaps remain regarding longevity, economic opportunities, owning and controlling of productive assets, and exercising voice and agency.** Significant gains have been attained in maternal and child health (e.g., maternal mortality was halved between 1990 and 2015) and the gender gap in education in aggregate terms has narrowed at primary and secondary levels. However, the gap continues to be significant at tertiary level with more females than males enrolled in higher education.⁶ Even though Mongolian women are on average better educated than their male peers, female labor force participation has declined from nearly 60 percent in 2007 to around 55 percent in 2016 and ownership of immovable assets remains biased towards men. The gender gap in life expectancy is widening further: women are expected to live nearly ten years longer than men in 2017 as compared to 6.5 years in 2005. Progress was made in 2016 in increasing women’s representation in the national assembly, but women’s participation in public policy making is much lower than men’s (e.g., women comprise only 13.1 percent of ministerial positions in 2017).⁷ There is also evidence of a high occurrence of domestic violence against women. Recent data shows that 31.2 per cent of ever-partnered women have experienced physical and/or sexual violence in their lifetime.⁸

III. PROPOSED WORLD BANK GROUP PARTNERSHIP FRAMEWORK

13. **The proposed WBG program in Mongolia will be organized in three focus areas: Improving Governance, Increasing Competitiveness and Strengthening Human Development and Resilience.** These priorities are based on government demand, the findings of the SCD, the stakeholder consultations in Mongolia, and the WBG’s comparative advantage. They build on the previous CPS 2013-2017, which focused on Mongolia’s capacity to manage the mining economy, economic growth and employment in rural and urban areas as well as addressing vulnerabilities through better access to services and service delivery. The CPF is also taking into account the current lending and ASA program, which will provide the basis for a large share of the CPF results framework.

Illustration 1: CPF Focus Areas and Objectives



⁶ Female and male gross enrolment ratio is 76.5% and 53.5% respectively. See NSO, Mongolian Statistical Yearbook, 2017

⁷ World Economic Forum, Global Gender Gap Report 2017

⁸ NSO & UNFPA, Breaking the Silence for Equality: 2017 National Study on Gender-based Violence in Mongolia, 2018

14. **While the proposed CPF program builds on previous engagements, the new focus areas and underlying objectives signal some important shifts going forward.** Henceforth, governance will be a separate focus area. The WBG will continue its various engagements to strengthen transparency, accountability, and economic management, but also increase efforts to promote civil service reform and capacity building as well as Mongolia's capacity to manage macroeconomic volatility better. Institutional and governance issues are, of course, cross-cutting in nature and will therefore also be addressed in each of the focus areas. Another important shift will be heightened attention to infrastructure as a pre-requisite for economic development and competitiveness. Within the infrastructure sector the WBG will focus mainly on transport connectivity, energy and mining related infrastructure, while urban infrastructure, ICT and water will play a subordinated role in the CPF. The WBG will also increase its attention to climate change mitigation and adaptation. Mongolia's key commodity is coal and the country is a high emitter of greenhouse gasses (GHG), while it is severely affected by climate change and recurring natural disasters. Moreover, the WBG will further increase its efforts on education and social protection, whereas the WBG's engagement in the health sector will be scaled back.

15. **Even though the alignment of the CPF program with the priority areas identified in the SCD is high, not all of Mongolia's development challenges can be addressed by the WBG.** For example, the WBG only has a limited engagement in the water sector and will not be able to tackle the diminution of water resources. Water and sanitation challenges are partly addressed by other donors such as the Millennium Challenge Corporation and investments of the People's Republic of China. Urban housing, especially in Ulaanbaatar, is another important development challenge which will not be addressed by the WBG. Both the ADB and Korea provide significant support in this area. Instead, the WB will focus its infrastructure efforts on the energy and transport sectors. Within the Human Development focus area there will be a declining focus on health beyond an ongoing investment project, which will allow the WBG to increase resources and attention for education and social protection. In other priority areas where many donors are actively engaged, such as air pollution and economic management, it will be important to coordinate closely and ensure the complementarity of WBG activities.

16. **The CPF program is guided by the *Diversified Development* approach, which had also informed the analytical framework of the SCD.** This approach was developed in the WBG's *Diversified Development Report*⁹, which examines the development experience of resource-rich countries in Eurasia and compares it with the experience of similar countries in other parts of the world. The report finds that resource rich countries are best served by building diversified portfolios of assets rather than focusing on diversifying exports or production. Such building of assets is also described as genuine savings and includes investments in infrastructure, human capital, and the preservation of natural resources as well as in institutional capital to create capable institutions and efficient regulations. While diversified asset portfolios take time to build, they will facilitate structural transformations and bring about more sustainable economic dynamism and development. Thus, the WBG will focus most of its efforts to support genuine savings from natural resource income by promoting investments in institutions, infrastructure, natural and human development. Even when the WBG invests in individual sectors such as agriculture to support job creation and diversification, the focus of the WBG's activities will be on improving the framework conditions in the respective sector.

17. **The WBG engagements in Mongolia will further apply a Maximizing Financing for Development (MFD) approach, which aims to harness private financing to promote development solutions.** For every

⁹ Gill, Indermit et al, *Diversified Development. Making the Most of Natural Resources in Eurasia*, WBG, Washington, 2014.

new WBG intervention, the WBG will consider the potential for crowding in additional private resources. Infrastructure investments and mining are key focus areas for MFD. An ongoing infrastructure assessment, for example, will assess the potential and constraints to private sector solutions for critical infrastructure projects. Another key area for applying the MFD approach will be engagements in the mining sector. As in the case of OT, there is significant potential for additional private sector investments in mining. Sound fiscal and macroeconomic management, transparent public finances, and a stable regulatory environment are key to attract such investments. The World Bank will continue its support for policy reforms and technical capacity building in these areas. In addition, the World Bank stands ready to provide analysis and advice to the government on issues such as mining regulations, financing arrangements for individual mines, revenue sharing with local governments, environmental protection and mining related infrastructure.

3.1 Proposed objectives supported by the WBG during the CPF period

Focus Area 1: Improving Governance

Objective 1.1 Improving Public Sector Governance

18. **Mongolia has made considerable progress in many areas of governance over the last decade, but several challenges remain to deepen and fully institutionalize public governance improvements for the citizen's benefit.** On paper the political system has produced a robust legal framework regarding fiscal, social, environmental and financial sector administration at the national and local levels as well as oversight institutions. However, implementation and enforcement gaps have limited the gains to be expected from these enhancements. These weaknesses have largely been driven by i) a tendency towards populist policy commitments during election campaigns, ii) weaknesses in legislative processes that have led to the enactment of laws without sufficient policy analysis and risk assessment, and iii) various forms of state capture as well as policy and civil service management discontinuity due to frequent changes in parliamentary majorities.

19. **Public governance shortcomings have jeopardized the capabilities of the civil service, efficiency of budget processes, the effectiveness of regulations and systems, citizen engagement, and the confidence of investors.** Mongolia's civil service is of uneven capacity and increasingly politicized across different levels of the public sector. High turnover in senior civil service personnel has compromised the effectiveness of the public sector, while the increasing size of the civil service and the associated growth in the wage bill represent growing risks for the country's fiscal stability. Budget planning processes need also to be improved further. Between 2013-2016, an aggregate deviation in expenditures of around 12 percent has led to weaker and more unpredictable funding for the delivery of services in key sectors such as education, social welfare, roads, health, and justice. Public participation remains low despite efforts toward strengthening the legal environment and institutionalizing mechanisms for citizen engagement in decision making. In addition, efforts to foster transparency and accountability have produced uneven results.¹⁰ ICT solutions may help to improve transparency and public service delivery. To unlock the

¹⁰ On the 2017 Open Budget Index (OBI), for instance, Mongolia was among the countries whose score decreased from 51 (out of 100 points) in 2015 to 46 in 2017. Anti-corruption efforts have not been as effective as expected given the country ranked 103 (in the bottom half) on the 2017 Transparency International Corruption Perception Index. The 2016 Study of Private Perceptions of Corruption (STOPP) in Mongolia by the Asia Foundation also documented sharp increases in the lack of citizen's trust in many state institutions in the country.

country's potential of well-developed ICT sector in these areas, Mongolia needs to enhance its legal environment for e-Government, narrow the digital divide, develop online public applications and services for citizens, enhance interoperability and support the reuse of public sector information systems, and develop human resources.

20. Ongoing and new activities in support of public governance will focus on strengthening transparency, accountability as well as civil service reform. Ongoing projects to improve public governance aim to improve a) accessibility, transparency, and efficiency of public services using ICT (SMART government project); b) governance and community participation for the planning and delivery of priority investments in rural areas (Third Sustainable Livelihoods project, SLP3); and c) to increase access for citizens to public decision-making processes and quality services through social accountability (MASAM project). The WBG is also providing advice and capacity building on Anti-Money-Laundering regulations through the Stolen Asset Recovery Initiative (StAR). In addition to continuing these efforts, a new governance project, financed by an EU TF, will support the Government of Mongolia in strengthening the accountability eco-system around fiscal matters. Efforts in this regard will be complemented by a new Civil Service Diagnostic Study, which will help drill down the analysis on the current structure of the civil service and reform options for wage bill-related issues. The WBG stands ready to support civil service reform through further ASA and lending. In addition, it will consider a follow-up operation to SLP3 to further strengthen local planning, service delivery and accountability systems through supporting the Government's Local Development Fund (LDF).

Objective 1.2 Improving Economic Governance

21. Mongolia needs to mitigate the impact of boom and bust cycles caused by sudden changes in global commodity prices, which have maintained the country's economic performance below potential. The volatility of Mongolia's growth reflects in large part fluctuations of commodity prices. However, without more stable and sustainable growth Mongolia will not achieve the objectives of its Sustainable Development Vision 2030. Sound economic policies and economic diversification are essential in this regard. Such economic policies include ongoing fiscal consolidation, improved debt and investment management, avoidance of off-budget spending, adjustments in the tax and pension systems, more targeted social transfers, and enforcement of existing laws, such as the Fiscal Stability Law. It will be crucial for Mongolia to develop a long-term economic vision and, like other mining driven economies, mechanisms that allow it to stick to fiscal parameters regardless of commodity price fluctuations. In addition, investments in human capital, critical infrastructure, and well-functioning institutions would lay the foundations for a more diversified economy. This will have to be supported by an improved public financial management framework and data collection on Mongolia's socio-economic situation.

22. The WBG will continue to support Mongolia's economic governance through both lending and analytical work. An ongoing three-year DPL series, the Economic Management Support Operation (EMSO), aims to restore debt sustainability, strengthen social protection systems, and enhance competitiveness. The Strengthening Fiscal and Financial Sustainability (SFFS) project supports through technical assistance the reforms of the DPL series. For example, it intends to strengthen fiscal discipline, improve the quality of public financial management, and build economic policy making capacity. In addition, a series of continuous economic monitoring activities aims to inform economic policies. The Bank recently started to work on a new Country Economic Memorandum which analyzes critical issues such as Mongolia's productivity gap, firm competitiveness dynamics, innovation and trade relationships to serve as a key input into a more diversified growth strategy for Mongolia. Improving economic governance will be key to attract private investments and therefore a key element of the WBG's MFD

approach in Mongolia. Finally, a programmatic ASA with the National Statistical Office (NSO) aims to improve the quality and timeliness of key socio-economic data and as a next step the WB plans to support the introduction of multi-dimensional poverty measures.

Focus Area 2: Increasing Competitiveness

Objective 2.1. Job creation and diversification

23. **Mongolia's economy continues to heavily rely on mining, a sector vulnerable to external shocks and which creates limited direct employment.** In recent years the mining sector has contributed to about 20 percent of GDP, about 60 percent of industrial output and more than 80 percent of total exports. Mining will remain very important for the Mongolian economy in the decades to come, but the sector has a significant environmental footprint and creates little direct employment. Only about 4 percent of Mongolia's workforce have been directly employed in mining, but jobs in mining associated services amounted to around 15 percent in 2016.¹¹ In contrast, agriculture employs about a third of the population and represents 13 percent of GDP. The share of livestock in agriculture output is 84.2 percent, with meat and milk as primary products. However, lack of market-oriented livestock and agriculture production systems, marked by low productivity and flaws in the regulatory environment have hindered Mongolia's access to export markets. In addition to meat, recent IFC and World Bank studies have identified tourism, transport services, wool, cashmere, and leather products as potential sectors where Mongolia may have a comparative advantage, but important logistic, financial and organizational challenges remain¹² and climate change poses great threats to animal husbandry and arable farming. Another area with significant economic potential for Mongolia may be the ICT sector.¹³

24. **The WBG will continue to promote job creation and economic diversification both through activities focusing on the regulatory environment and strengthening SMEs.** Pillar three of the EMSO DPO series focuses on enhancing the competitiveness of the Mongolian economy by promoting improved investment and competition policies, enhancing the regulatory environment and capacity in the livestock sector, and facilitating trade and border clearance processes. In addition, the export development project supports SMEs in the non-mining sector to strengthen their export capabilities and expand access to export markets. The ongoing employment support project facilitates access to micro-loans for jobseekers interested in starting a business and equips them with business skills. Building on past WBG interventions, a new investment project in the agricultural sector is planned to strengthen animal health systems and enhance livestock and crop productivity and commercialization. The proposed IPF will support framework conditions for greater private sector involvement by strengthening key institutions and working on issues such as animal health management systems and product quality and food safety standards promotion. These lending activities will be further accompanied by ASAs to provide analysis and capacity building on further improving Mongolia's regulatory environment.

¹¹ Mining has strong indirect effects on employment generation in related goods and services (e.g. construction, financial services, transport and telecoms) and, therefore, has market-wide impact on real wages because of its pull of aggregate demand in general, derived labor demand and the fiscal revenues it generates.

¹² IFC, 2017, *Country Opportunity Spotlight* and Latimer, Julian and Marcin Piatkowski, 2018, *Trade and Transport Facilitation Assessment of Cashmere, Wool, meat and Leather Industries, and Opportunities along the Central Economic Corridor in Mongolia*, Policy Note, World Bank.

¹³ The Communications Regulatory Commission's latest report on Mongolia's IT sector shows the increase in the Internet service from 200,000 subscribers in 2010 to 2.6 million by December 2016; increasing internet penetration to 86 percent. The use of mobile and smart phones has increased from 60% of population in 2009 to 102% in 2015.

25. **IFC will promote job generation and Mongolia’s competitiveness through investment support and advisory engagements in the agribusiness and tourism sectors.** In agribusiness, IFC will look to pursue engagements in higher value segments, such as meat, dairy and cashmere where the potential for scale-up and export is relatively strong. IFC’s activity in this sector will be complementary to the Bank’s engagements promoting agri sector competitiveness to boost the sector’s trade and exports. On the advisory side, IFC’s engagement will include upstream work on animal health, sustainable business practices, quality standards to enhance supply chains, and linking local firms to reputable regional partners. In tourism, following IFC’s strong engagement through its earlier support in the premium (Shangri-La hotel) as well as midmarket (Ibis Styles) segments, IFC will be looking to offer further support in the sector to players focusing primarily on projects outside Ulaanbaatar. IFC’s advisory work in the tourism sector may include support for the creation and promotion of new “eco-tourism” destinations and attractions, aiming to create a strong multiplier effect in jobs and incomes rural areas.

Objective 2.2. Enhancing Investment Climate and Financial Intermediation

26. **Private investors perceive Mongolia as a high-risk environment and SMEs struggle to secure access to finance, while the financial sector still carries significant risks.** An unpredictable business climate restricts private sector activities, and the lack of proper investor protection mechanisms and a stable and transparent regulatory environment further undermine investors’ confidence. SMEs, which account for about 98 percent of total registered business entities and employ about half of Mongolia’s total workforce, list access to finance and a poor business environment as key constraints. The main constraints for SME’s access to finance are high interest rates, short-term maturities and strict collateral requirements. As of July 2018, the average interest rate for SME loans was 19.8 percent, and the average maturity was 21 months. In addition, Mongolia’s banking system continues to carry high risks, as determined by an IMF-mandated Asset Quality Review.¹⁴ These risks have forced the banks to reduce lending and significantly increase their holdings of safer assets. Loans to the private sector are primarily mortgages and consumer loans, leaving relatively little financing left for business needs or capital investments. Mongolia’s capital market is further characterized by a lack of depth and diversity in terms of instruments available, a small investor base, and relatively low regulatory capacity. Mongolia’s non-banking financial institutions remain underdeveloped, but with a substantial role to play going forward in enhancing access to finance for micro enterprises and deepening the financial market through development of leasing and insurance.

27. **A comprehensive effort is needed to strengthen the banking system and financial safety nets.** Mongolia ranks 122 (out of 140 countries) in financing for SMEs and in soundness of banks in the Global Competitiveness Index.¹⁵ Financial sector reforms are a key component of the IMF program and teams from both the WBG and the IMF cooperate closely in this area. Through the Financial Sector Development Support Program (FSDSP), which is a multi-year programmatic ASA, the WBG supports financial sector stability and deepening through strengthening financial safety nets and state financial institutions (esp. DBM); improving financial infrastructure and literacy, creating better conditions for recovery of stolen assets, and reforming the insolvency regime and subsidized housing mortgage program. Going forward, a continuous financial sector development dialogue; including further DBM reforms, improving the credit information registry and securitization framework will be key. The financial sector component of the SFFS

¹⁴ An Asset Quality Review (AQR), covering 91% of corporate loans of the banking system, was carried out in 2017/18 as part of the IMF program. A capital shortfall of about 2% of GDP was identified and banks were requested to recapitalize by end-2018.

¹⁵ The Global Competitiveness Report 2018: <http://reports.weforum.org/global-competitiveness-report-2018/>

project focuses on enhancing financial stability and risk mitigation through technical assistance and capacity building for key institutions such as MOF, BOM, FRC, DBM, and DICOM.

28. **Building on previous engagements in the financial sector, IFC will continue to support Mongolia's banking sector and access to finance.** Specifically, IFC will support: (i) local partner banks by providing Tier II capital, dedicated credit lines for on-lending to MSMEs or green projects, and participations in local banks' issuance of green bonds; (ii) Non-Banking Financial Institutions (NBFIs) that focus on microfinance, leasing and insurance services; (iii) local capital markets development through encouraging issuance of onshore bonds and securitizations, and enhancing capital markets infrastructure; and (iv) a Distressed Asset Resolution Management (DARP) framework aiming to improve financial health of banks and facilitate exits and restructurings of SMEs facing financial difficulties. On the advisory side, IFC will work with clients on areas such as corporate governance, risk management, sustainable energy financing, and digital solutions. IFC will seek complementarity with the World Bank's engagements and MFD opportunities, for example by promoting a more efficient and commercially-oriented financing framework for SMEs and increasing the multiplier effect of government's concessional funding. Other areas of potential WBG collaboration may include advisory services to enhance regulatory frameworks, capital market infrastructure, and promote value chain finance market development. With regard to the latter, IFC and other development partners, will continue supporting Oyu Tolgoi in the implementation of its local procurement program focused on building business skills and facilitating access to finance for SMEs.

Objective 2.3 Supporting Infrastructure Investments

29. **Increasing the competitiveness of Mongolia's economy will require increased investments in infrastructure.** Several indexes show Mongolia at the bottom of global infrastructure rankings¹⁶, which is a significant constraint for the country's competitiveness and private sector development due to high costs of logistics and transportation. Providing and maintaining efficient ground transportation infrastructure is a key challenge given that the country is landlocked and its harsh climate conditions and low population density. Currently, railway reaches only 7 of the 21 aimags and only 16 of the same 21 aimags are connected to the capital city through paved roads. As a result, many residents do not have access to markets, employment opportunities, basic services, and economic corridors with Russia and China have not met their potential yet. In addition, urban transport in Ulaanbaatar cannot meet the travel demands of its residents, contributes to losses in economic productivity and quality of life, while the fast rate of motorization impacts on the GHG balance of the country.

30. **Mongolia's energy sector is also facing serious challenges in providing reliable and sustainable energy (electricity and heat) supply.** The lack of access to electricity has been a serious impediment for the private sector. Mongolia is ranked 148 in the Getting Electricity indicator of the 2019 Doing Business Report. District heating networks, providing heat generated from combined heat and power plants to Ulaanbaatar's urban areas and smaller cities are deteriorating due to lack of urgently needed investment in rehabilitation, expansion and maintenance. To meet growing demand, electricity and district heating networks will need additional generation capacity as well as network upgrades. The existing energy system is heavily dependent on coal, contributing significantly to both greenhouse gas emissions and air pollution. Meanwhile, Mongolia has substantial renewable energy potentials but only a small portion has

¹⁶ See for example the World Economic Forum's *Global Competitiveness Report 2017-2018*, which ranked Mongolia 108 out of 137 countries in infrastructure. Mongolia ranked 110 with regard to quality of roads, 105 with regard to road connectivity, and 113 with regard to efficiency of air transport.

been exploited. Finally, Ulaanbaatar is highly polluted in winter largely due to *ger* households burning coal and wood for heating. Ground level air pollution has become a major cause of severe respiratory diseases putting high risks on vulnerable groups. Without any mitigation measures the level of air pollution will remain high, especially with growing migration into Ulaanbaatar.

31. **The WBG will support infrastructure development with a focus on transport and energy.** The WBG is currently conducting an infrastructure sector assessment (InfraSAP) of Mongolia's regional corridors (rail, road, ICT and energy) to identify infrastructure gaps and help design an institutional framework to implement regional connectivity projects. Where regional corridors correspond with mineral resources, opportunities will be identified to leverage mine and mineral processing investments that can serve as anchor customers for more reliable energy and transportation services. Furthermore, the WBG is ready to provide advice to the Mongolian government on potential infrastructure investments in the context of the Belt and Road Initiative and other regional initiatives to help ensure that the development impact of such investments is maximized and financial, social and environmental risks are mitigated. Based on demand and resource availability, the WBG will provide co-financing for regional transport infrastructure and continued capacity building on infrastructure financing (e.g., PPPs) and asset management. In addition, the WBG currently provides ASA in the urban transport sector to improve urban transport planning and management in Ulaanbaatar.

32. **In the energy sector the focus will be on energy efficiency and renewable energy.** Ongoing energy projects aim to combat air pollution in Ulaanbaatar (UBCAP) and improve reliability of electricity distribution networks as well as increase renewable energy generation (ESP2). Furthermore, analytical support is provided for the development of an Energy Sector Masterplan, that will factor in potential mining loads, as well as a heating sector roadmap to lay the foundations for investments in modernizing district heating and scaling up clean heating *ger* areas. Potential areas for further World Bank investments include efficient urban and clean *ger* heating and smart grid technology to enable higher penetration of variable renewable energy generation in the national grid. A planned Heating Sector Project in Ulaanbaatar would help meeting growing heating demand and reducing air pollution. For the power sector, further investments could focus on system upgrades to increase the ability to absorb variable renewable energy in the grid and to export surplus generation, including through a potential additional financing of ESP 2 and a new energy sector project. These activities are closely aligned with Mongolia's National Determined Contributions agreed during the Paris Climate Conference. Building on ongoing and planned work conducted by the Bank on regulatory and contractual framework improvements for renewable energy, IFC will look for opportunities to support renewable energy, possibly with third-party renewable energy producers to supply energy to OT or other mining projects in South Gobi, or through advisory to the government on solar auctions in line with international standards.

33. **As a matter of principle, any infrastructure investments will be approached with a *Maximizing Financing for Development (MFD)* lens to leverage private financing.** For example, mining may play a key role for supporting infrastructure in Mongolia since mining and mineral processing companies represent an important customer of road, rail and power infrastructure. In addition, upstream policy advice and capacity building in the transport, energy and mining sectors could facilitate greater MFD. IFC will continue engaging with line ministries and agencies to identify assets for potential application of PPP framework and explore potential PPP solutions or privatizations in transport, power and water/wastewater utilities.

Focus Area 3: Strengthening Human Development and Resilience

Objective 3.1 Strengthening Human Capital

34. **Various health and education challenges persist in Mongolia.** Despite being highlighted as a priority by the Health Sector Strategic Master Plan for 2006-2015, the quality of care and particularly the quality of primary care in rural areas are major constraints in the Mongolian health sector. A study of health care access and quality in 195 countries had Mongolia ranking 119th.¹⁷ A key constraint has been that primary health care facilities in rural areas have seen a reduction in numbers and have difficulties in recruiting competent health professionals. Differentials in service quality cause patients to bypass primary care services in favor of secondary or tertiary services, which is medically often unnecessary. In addition, there is no standardized performance monitoring system to collect information on quality of care and facilitate quality improvement. In the education sector, Mongolia trails behind its economic peers in early childhood literacy and numeracy.¹⁸ Gaps in abilities among young children and early graders within Mongolia are also large.¹⁹ Underlying these gaps is uneven access to quality education services, which is, amongst others, linked to the absence of learning assessments, low non-salary operational budgets and insufficient school-level autonomy, and a lack of targeted services in rural areas and among hard-to-reach populations. Lack of support for socioemotional skills and a disconnect with labor market needs further undermine the development of skills needed in the Mongolian economy. This is evidenced by a low labor force participation rate among youths nationally and a low employment rate among graduates of technical and vocational education and training (TVET)²⁰ and tertiary education.

35. **Various ongoing and planned WBG interventions seek to strengthen human capital.** The ongoing e-Health project aims to support effective management and control of non-communicable diseases (NCDs) by facilitating the real-time exchange of patient information and providing accurate and regularly updated data to monitor NCDs. Furthermore, the project contributes to greater coordination of care across the different levels of the health system, generating further cost savings in the management of NCDs. In addition, new opportunities will be sought to build up the analytical base for strengthening the health system especially through a detailed look at health workforce formation, deployment, incentives, and quality of care as well as innovative service delivery models to respond to Mongolia's special geographic conditions. In the education sector, the Education Quality Reform and the Transparency and Accountability in Mongolian Education projects aim to improve early grade schooling and learning outcomes, teacher performance, school level planning, and increased accountability. Ongoing analytical work examines Mongolia's support for early childhood development, especially among the most disadvantaged children. This work may inform new lending to support early childhood development and human capital formation in both rural and urban areas. In addition, a proposed RETF financed by the Japanese Social Development Fund seeks to empower vulnerable, disadvantaged youth in selected provinces with socioemotional skills for improved performance in school and preparation into the labor market, particularly self-employment.²¹

¹⁷ Measuring performance on healthcare access and quality index for 195 countries: a systematic analysis from the Global Burden of Disease Study 2016.

¹⁸ Only 9 percent of Mongolian children aged 3-5 years could perform simple literacy and numeracy tasks, compared for example to between 30 and 69 percent in Thailand, Uruguay, Belarus, Ukraine, Macedonia, Argentina, Serbia, and Moldova. Data based on authors' compilations for the ASA "Mongolia: Early Years" (World Bank, forthcoming).

¹⁹ World Bank. 2017. Pre-primary education in Mongolia: Access, quality of service delivery, & child development outcomes - March 2017 (English). Washington, D.C.: World Bank Group.

²⁰ In 2012, the employment rate among TVET graduates stood at 55.6 percent six months after graduation (ADB. 2014. RRP Sector Assessment: Skills for Employment Project.)

²¹ Complementary investments by the ADB and other donors target higher education; autonomy, accountability, corporate governance; equity and access among disadvantaged groups; and technical and vocational education and training.

Objective 3.2: Improving Social Protection

36. **Further progress is needed regarding reforms of social welfare programs, the pension system and the labor market.** Despite the many benefit programs and the relatively generous budget allocation on social welfare, the system is not yet able to protect the poor adequately. Almost all programs remain categorically targeted except the Food Stamp program (FSP), which benefits less than 5 percent of the population. The government made considerable efforts for enabling the necessary infrastructure to target social welfare benefits, but the use of database and methodology is still very limited. Moreover, a new poverty targeted benefit, envisioned in the 2012 Social Welfare Law, has not been implemented yet. Going forward, the government needs to i) increase efficiency of the social welfare system, starting by consolidating the existing programs; ii) ensure the system's fiscal sustainability by shifting resources to programs that target the poor; and (iii) improve the delivery system by addressing failures in the delivery chain and modernizing the IT architecture. In addition, the pension system is at a critical moment, which in the absence of substantial reforms will generate substantial fiscal deficits. Mongolia is an aging society and the country has to adjust the parameters and qualifying conditions for pension benefits to prevent a rapid escalation of state subsidies and better align the scheme with the characteristics of Mongolia's society. Finally, well-functioning labor markets will be key as the economy transforms. In particular, the government needs to modernize public employment services by building capacity in employment offices and improving the labor market information system (LMIS) that will help jobseekers, employers, and policy makers to make more timely and informed decisions.

37. **The World Bank will support social welfare, pension system and labor market reforms through a mix of analytical and financial services.** The Bank will support the government efforts of reforming its social welfare system through ongoing and new advisory services and just in time technical support as well as existing projects such as the SFFS project and the EMSO DPF series. Strengthening the social protection system is one out of three pillars of EMSO, with a special focus on better targeting of anti-poverty programs and pension reform. To maximize the impact of its support, the World Bank will combine its policy level engagement with a stock taking assessment of the social welfare system with attention to the delivery chain of each program and the IT infrastructure to support administrative reforms. Analytical work will also increasingly focus on aging, including the demographics for an aging workforce and elder care. Furthermore, the ongoing employment support project provides training for staff in employment offices to improve counseling for jobseekers and identifying job matches. In addition, the project supports labor market monitoring and analysis, including through an improvement of LMIS.

Objective 3.3: Climate Change Mitigation and Adaptation

38. **Mongolia's high dependence on coal-based energy, reliance on pastoral animal husbandry, rain-fed agriculture and growing urban population concentrated in a few cities combine to make Mongolia's socioeconomic development highly vulnerable to a changing climate.** The country is highly susceptible to a range of extreme weather events such as dzuds²², floods, droughts, forest fires and dust storms. With climate change, the frequency and intensity of hydrometeorological hazards is expected to increase. Per capita CO₂ emissions in 2013 were 2.3 times the global average. Historical data since the 1940s shows increased average annual temperature (almost double the global average) and changes in mean annual precipitation (varying by zone). Livelihoods of almost 40 percent of Mongolia's population depend on animal husbandry and rainfed agriculture, limited water availability constrains agricultural productivity

²² A *dzud* is the Mongolian term for multi-factor disasters arising from summer drought followed by heavy snowfall and lower than usual winter temperatures.

and economic growth. Climate change has also amplified internal migration, putting additional stress on urban areas. Mongolia's government is committed to combat climate change. The country is a signatory to the Paris Agreement and committed to implementing its Nationally Determined Contributions (NDCs), which were part of the Paris agreement. It aims to reduce its GHG emissions to 14 percent by 2030. Due to the country's high vulnerability to climate change, adaptation is a key aspect of the NDC process.

39. **The WBG will work closely with the GoM to continue its ongoing support on mitigation and enhance support on climate and disaster resilience.** The Bank's intervention strategy on climate change mitigation in Mongolia is mainly directed towards (i) improving both supply and demand side energy efficiency; (ii) diversifying energy generation through scale-up of renewable energy; and (iii) policy dialogue on institutional, regulatory and policy reforms. These activities are closely aligned with Mongolia's NDC commitments (see table 3 below). The main ongoing operations in support of climate change mitigation are the 2nd energy sector project, which deploys solar photovoltaic technology and improves the efficiency of the distribution networks, and the Ulaanbaatar Clean Air Project (UBCAP), which supports Mongolia's mitigation efforts by replacing traditional heating coal stoves with more efficient options. Additional investments to further improve the efficiency and cleanliness of the heating sector in Ulaanbaatar are currently considered. Furthermore, several ASA aim to promote mitigation efforts through more efficient heating options, scaling-up renewable energy and improving public transport. In addition, IFC stands ready to invest in renewable energy and support green building solutions, including through investment and advisory support for commercial and green mortgages. The Bank's intervention strategy for climate change adaptation will focus on: (i) urban resilience, (ii) disaster risk management, hydromet modernization and climate services and (iii) support the government to implement Mongolia's NDCs through capacity building activities. Ongoing activities include a programmatic ASA on Mongolia's Climate and City Resilience financed through trust funds from GFDRR and the NDC Support Facility. Under this ASA, the World Bank also provides targeted capacity building for government officials for implementing Mongolia's NDC. Furthermore, the Bank will aim to leverage IDA and catalyze access to other sources of financing such as climate finance, private sector financing and co-financing with other development partners. It will also help strengthen Mongolian partnerships with the Bank's City Resilience Program (CRP) and the World Meteorological Organization (WMO) to strengthen disaster and climate resilience.

3.2 Implementing the FY20-24 Country Partnership Framework

40. **The remaining indicative allocation from IDA, the World Bank Group's concessional lending arm, for FY19-20 is in the range of SDR 75-85 million (approximately US\$103.7-117.5).** The actual allocation will depend on (a) the total IDA resources available; (b) the country's performance rating, per capita gross national income, and population; (c) the performance and other allocation parameters for other IDA borrowers; and (d) the number of IDA eligible countries. The IDA financing terms will be reassessed through regular updates of Mongolia's Debt Sustainability Analysis. Given its relatively high income per capita, it is not clear yet whether Mongolia will remain eligible for IDA resources beyond 2020.

41. **Mongolia also has access to funds from IBRD, the non-concessional lending arm of the WBG.** The indicative IBRD exposure limit for Mongolia is about US\$ 200 million. Actual IBRD lending volumes over the CPF period will depend on country demand, overall country performance, as well as global economic and financial developments, IBRD's financial capacity, and demand by other Bank borrowers. So far Mongolia has not tapped into any IBRD resources, but this is likely to change. In the medium term,

better economic performance and improving creditworthiness resulting from more consistent economic policies are expected to expand the available IBRD resources for Mongolia.

42. **The WBG will actively seek co-financing opportunities with other partners to leverage its own scarce resources.** A key partner in this regard could be the Asian Infrastructure Investment Bank (AIIB), with which the Bank has an established co-financing MoU. Other potential co-financing partners are the Asian Development Bank (ADB), China, Japan, and Korea, with which the Bank is already actively cooperating as part of the support package for Mongolia's economic recovery program. The EU recently started contributing to a large WBG Trust Fund. Other co-financing opportunities will be sought in the context of the Belt and Road initiative and other regional connectivity Initiatives. Furthermore, different climate financing sources may further be explored as well as complementary grant funding to support ASA for climate-relevant activities.

43. **In addition to financial services, the World Bank will continue to provide advisory services and analytics (ASA) in strategic areas.** Most ASA will continue to complement ongoing and new lending operations in specific sectors, but other ASA may be independent from any Bank financing and constitute an alternative way of supporting policy and financing decisions by Mongolian partners. Such ASA may also be used to inform financing by others bilateral or multilateral partners or even the private sector as a means to leverage additional resources. ASA will continue to be a mix of short-term policy advice and technical assistance as well as longer-term diagnostics. The future ASA program will also strive to address some of the data and research gaps which were identified in the SCD, such as data on quality of education, labor markets, gender, and poverty.

44. **IFC, the WBG's private sector arm, will be looking to play a strong catalytic role in helping Mongolia address its private sector development needs using the full range of its investment and advisory instruments.** IFC will work closely with the World Bank to implement MFD principles and create markets. It will continue growing its investment and advisory engagements to boost competitiveness, environmental and social sustainability of Mongolian businesses, attract quality FDI and partners into the country, deepen access to finance for SMEs, support job creation, and foster policy reforms that would help Mongolia's diversified economic growth and regional integration. IFC will explore and support projects where the private sector, including private sources of financing, can play a more meaningful role – including in infrastructure, thus helping relieve fiscal pressures and allowing the government to deploy resources in much needed social areas (e.g. health, education, social protection). During the CPF period, IFC expects to continue supporting OT as IFC's major existing client. Such support would include broader advisory engagements with OT focused on SME-mining linkages as well as on sustainable water and renewable energy in mining operations, and community development. IFC's potential participation in follow-up direct financial support to OT will be predicated on the client's demand, policy stability and broader macroeconomic environment. Other priority areas for IFC engagements during the CPF period include interventions promoting increased competitiveness through better access to finance (especially for green finance, SMEs and women-owned SMEs), agribusiness, tourism and sustainable infrastructure development. Depending on the progress of key reforms and economic stability, IFC's cumulative investment program during the CPF period may have a broad range – from US\$100 million on the low end of the range to US\$800 million on the high end (for IFC's own account and mobilization).

45. **MIGA, which also belongs to the WBG and provides political risk guarantees for private investors, has a large guarantee for the Oyo Tolgoi gold and copper mine and stands ready to support other eligible investments.** MIGA's suite of political risk insurance covers transfer and inconvertibility restrictions, expropriation, breach of contract, and war and civil disturbance. Mongolia falls under MIGA's

strategic priorities of supporting investments in IDA eligible countries. MIGA will consider eligible investment projects in all sectors, especially infrastructure and renewable energy. MIGA is currently supporting a syndicated loan totaling US\$ 1 billion, arranged by Standard Chartered Bank, for the Oyo Tolgoi gold and copper mine.

IV. MANAGING RISKS TO THE PROPOSED CPF PROGRAM

46. **Macroeconomic risks will continue to be high.** Given the volatility of Mongolia's economy, it is likely that the macroeconomic situation deteriorates again during the CPF period. Also, the country's debt situation remains difficult and will have to be managed carefully. Another economic crisis could severely impact the attainment of the CPF objectives. Several ongoing WBG operations are aiming to support macroeconomic management and so is the IMF EFF and associated donor support. In order to mitigate macroeconomic risks, it will be key for the Mongolian government to stay the course of reform and stick to the government's own economic recovery program as well as the international support program. In addition, honoring its commitments under major investment agreements will be key to promote economic stability and strengthen the investment climate.

47. **Political and governance risks are substantial.** These risks have materialized during the last CPS period and are likely to remain substantial. They range from frequent changes in governments and civil service, which have led to delays in project implementation, as well as difficulties in engaging with government on the planning for new Bank projects to political interference in the implementation of ongoing operations. These interferences can undermine implementation capacity and sustainability. In addition, there will be general elections in 2020 and a change of government could lead to changes in political priorities, which could affect the CPF. The election period may also pose a risk for the government's continued commitment to the economic reform program. The WBG country team will monitor the situation carefully and be vary of any political interference in project implementation. In case political priorities change, the WBG will consider how potential new priorities respond to key development challenges and fit into the overall country program. If needed, the WBG will adjust the CPF through a PLR.

48. **Risks in institutional capacity for implementation and sustainability also remain substantial.** Even though adequate laws and regulations are mostly in place, a key challenge has been the weak implementation of institutional frameworks under growing political pressures. This has impacted the WBG's support in several reform areas. One mitigation measure for this implementation gap is to strengthen independent oversight mechanisms (e.g. such as the Fiscal Council in the fiscal space) or to promote civil service reform. Capacity building for civil servants and analytical support in key reform areas—such as tax reform, public investment adjustment, social protection and pension reform, business and investment environment—will also help mitigate implementation risks and sustain reform momentum throughout the CPF program.

49. **Recent misallocations of an SME development fund financed out of the government's budget illustrate that fiduciary risks continue to be substantial.** A significant share of subsidized loans out of a Mongolian SME fund was channeled to companies owned or related to Members of Parliament. This led not only to a serious political crisis, but also a deterioration of trust in the fiduciary capabilities of the government. Even though WBG funds have not been affected, WBG projects support similar funds and through EMSO the WBG provides budget support. The WBG will have to continue to closely monitor the management and use of its funds and ensure that the necessary fiduciary controls are in place.

50. **Other substantial risks include environmental and social safeguards.** Especially in the context of mining related and other infrastructure projects, there have been some complaints from affected communities about potential adverse social and economic impacts. So far these could be solved without triggering any Inspection Panel cases. However, the more the Bank will engage in these areas the higher the risk. It therefore needs to continue to ensure that WBG procedures are followed and, in particular, the new Environmental and Social Framework of the WBG is rolled out successfully in Mongolia. Past experience in the context of the MINIS project has shown that in particular comprehensive consultation with affected communities are key to mitigate environmental and social risks.