

Mongolia
The SCD-CPF Engagement meeting with development partners
September 1 and 22, 2017

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 Indra Baatarkhuu at ibaatarkhuu@worldbank.org.

The World Bank Group (WBG) met with 16 development partners on September 1 and 22, 2017 to exchange views and perceptions on Mongolia's development opportunities and challenges as well as possible WBG support.

The discussions focused on three guiding questions:

- 1) What do you see as Mongolia's biggest opportunities as well as challenges to end extreme poverty and promote shared prosperity?
- 2) What are the development priorities for Mongolia in the next 4-6 years?
- 3) How do you think the WBG (World Bank, IFC, MIGA) could support Mongolia in the next 4-6 years to end poverty and promote shared prosperity in a sustainable manner?

Category	Comments from Stakeholders
<p>Inputs on country diagnostic (opportunities, challenges, and pathways to end poverty & promote shared prosperity)</p>	<p><u>Opportunities</u></p> <ul style="list-style-type: none"> • IMF program – opportunity than a challenge in terms of learning how to break the boom & bust cycle, putting in place the institutional setting for breaking the cycle and figuring out short term vs. longer term approach to economic growth in order not to repeat the history. • Mongolia is a special case because biggest opportunities in Mongolia are also biggest challenges: high mineral wealth and high ranking on some human development indicators, but also better management of wealth should be pursued to sustain the progress. Agriculture and livestock sector is a big contributor to jobs and people's livelihoods but makes up small percentage of GDP. • Mongolia is one of few countries achieving MDG on maternal mortality. Notable progress on education and health. • Mongolia is a fairly stable democracy. Institutions are working in general and legislation is relatively strong. Has made progress on human rights. <p><u>Challenges:</u></p> <p>Macroeconomic situation:</p> <ul style="list-style-type: none"> ○ Structure of the economy is too dependent on mining. Different instruments in the private sector are being tested, e.g., for SMEs but the economy is still driven by mining. ○ Commodity prices are highly volatile, subjecting the economy to boom-and-bust cycles - these factors are outside of the government's controls. ○ Liquidity shortage and high prices led to a lending spree. There is a lack of tight banking supervision and regulation. Well supervised banking supervision and macro prudential agenda could help mitigate the boom and bust cycle.

- Led by the stimulus from economic growth in China, expenditures soared causing Dutch disease type of issues in the economy. Fiscal control should be at the heart of policies. The country needs to start saving. To insulate the spending decisions, a sovereign wealth fund (SWF) could be established and operationalized. Short term debt pay-offs are expected; once these are handled – SWF should be operationalized. Fiscal council should oversee compliance with the Fiscal Stability Law.
- Fiscal constraints are a challenge. Need to balance the need for economic revival and diversification with other dimensions such as social sectors. Need to make sure budget cuts are not done on all sectors and areas as this affects negatively people's health and social protection, e.g. hospital medicine procurement affected by budget cuts which impacts peoples' health directly. Maternal mortality doubled in 2017. This shows fragility and vulnerability to external shocks due to being dependent on one sector.
- Sovereign debt is being controlled but limiting investments.

Economic diversification:

- Little has been done in various sectors, such as in energy & agriculture; however, no one is willing to invest in the current legal and institutional setting. 6-8 years are needed to rebuild the trust and sentiment.
- Current & past approach: Past efforts not targeted at fully developing an industry that is internationally competitive.
- How should Mongolia intervene in diversification? Many countries focus on labor-intensive manufacturing but it cannot be the case in Mongolia. A more thorough analysis of what does diversification mean for the country needs to be done.
- Competitive exchange rate could help the diversification agenda in sectors such as agriculture.
- Fantasy programs not matching capacity/institutions are hindering diversification efforts.
- Moving from feasibility studies to implementation, for larger projects, has been a big challenge for the government.

Political instability

- Politics is a complex part of what is going on in the country. Risks are high from bad political decisions.
- IMF program every 4 years, a new Prime Minister every 1.5 years showing that the two are connected.

Governance and transparency:

- Biggest challenge in the country is governance. Even if a good macroeconomic framework is achieved, if governance is weak, policies will not get implemented. There are many policies and strategies approved, e.g. over 30 policies in health sector, but implementation and monitoring of policies is insufficient due to government instability, lack of monitoring and review involving all stakeholders. Governance is the hardest to change – given the issue is both culturally and historically rooted. Expectation should be realistic for strengthening governance.
- Corruption is a root problem, e.g. 3% of GDP attributable to undisclosed expenditures. Corruption on fiscal spending and so-called PPPs leads to macro problems. Corruption causes low quality of services, infrastructure,

education, and health services. Convergence of political interests and business leads to many governance and corruption problems.

- Licenses are being handled by people to make margins from keeping them for a certain period of time. License trading is becoming an issue given the lack of transparency in the process. Requirements on what to do with licenses is something that should be looked into closely.

Institutional capacity and civil service:

- Institutional capacity is an issue. Mongolians are very aspirational but plans are difficult to be implemented in practice. Transform aspirational documents into those that are practical and manageable within the current institutional capacity.
- There is a lack of capacity to prioritize. There is a need to identify quick wins in certain areas.
- Civil service reform is very important but is a much longer term agenda. Culturally, tight budget discipline has been one approach.
- High instability of civil service jobs. A lot of investment is being made into training civil servants and capacity building, but due to high staff turnover we have to start over again and all the progress is lost.
- Given the country's small population, higher thinking-type of labor should be promoted suggesting further investment needs in education.
- How to create jobs is a challenge that needs to be addressed.

Environment:

- Pollution is the most harmful!
- Mongolia is affected by climate change heavily, people are getting driven out of rural areas creating influx in UB. This affect quality and access of social services and adds to pollution issues in UB. Poverty and environment are closely related in Mongolia.
- Majority of funding for climate change related projects comes from donors – when donor projects are finished, the problem will be more severe if not addressed now.

Health:

- Domestic contribution to health sector should be increased. Donor projects in health sector is decreasing. Out-of-pocket payments by patients for their health expenses is high. State budget and insurance funds contribute to health sector funding, but still out-of-pocket payment from patients is very high (majority of the payment is for medicines). Price of medicines is high and not regulated.
- Major communicable diseases, such as TB, drag people into poverty. Access to drugs in an issue.
- Investment in non-communicable diseases have very long term returns, so government usually prefers to make investment in programs with short term results. Need to push the government for real long-term commitment to battle non-communicable diseases.
- On the other hand, Mongolia can cope well with domestic resources in health sector if the resources are used more efficiently.

Others:

- Need to focus on education and development of young generation born after democratic transition. Education quality in secondary and high schools

	<p>degraded. Increasing suicide, tobacco and drug use rates among young generation is a growing concern.</p> <ul style="list-style-type: none"> • Social protection should be looked at more comprehensively in Mongolia as currently social protection is understood as child money handouts. Even if families receive child money, quality education and health services are not there leaving them vulnerable.
<p>Inputs on WBG strategy and partnerships</p>	<p>Areas of support</p> <ul style="list-style-type: none"> • Suggestion to focus the CPF on how the country will establish the basis for sustainable/broader growth, economic diversification. Use WBG comparative advantage on broader diversification area, help Mongolia use mineral wealth and invest it into human capital, livelihoods improvement and growth that drives employment creation and shares benefits broadly. • Governance: support around major issues i.e. constitutional reforms – roles and responsibilities among leaders; civil service reform toward creating a much more stable and more expert civil service; an area sitting across institutional capacity and governance that is expert advice e.g. on development of legislation based on best practices internationally. • Suggestion to focus on solving corruption issues in Mongolia. • Work with other partners to reduce out-of-pocket payments by patients receiving health services given the WBG mandate in Universal Health Coverage. • Need to support prioritization of investment needs through a better structured approach. • Support in education and health sector issues where other donor investments are limited. Focus on wider sectoral issues. • Address mining sector governance: licensing issue, etc. <p>Approach and implementation:</p> <ul style="list-style-type: none"> • WB should do larger projects. Using the scale of WBG resources, invest in larger projects such as renewable energy projects based on Mongolia’s existing potentials. • Implement projects with the government to address broader sectoral issues -- WB can focus on overall sector development projects while others can work on smaller scale, specific issues. • Need to prioritize support areas and not spread resources too thinly across all sectors. Focus on few pillars. Showcase the government and people on small samples how things can and should be done – demonstrate comprehensive development of one small area in ger districts so that people’s minds change seeing tangible results and they have a model to replicate. • When providing budget support, provide advice to the government not to cut the budget for key social sectors. Advise the government on keeping the budget in line with SDGs, i.e. continue investments in social and environment sectors to ensure achieving SDGs. Promote pro-poor budgeting. • Tap on the WBG’s competitive advantage in facilitating bigger reforms. WBG can play a coordination role within the IFIs. Create a platform for collaboration. • Don’t underplay the value of knowledge. In order to promote broader public sector governance, establish the base for it e.g. through policy briefs. • Invest time in setting up realistic objectives taking into account the pressures in sight.

	<ul style="list-style-type: none"> • Focus on good practices vs. best practices. • Weave in some flexibility for timing given the political situation. • Learn from past lessons around loan processing in addition to lessons in implementation. • Be flexible in strategy given fast changing scenarios in Mongolia.
Others	<ul style="list-style-type: none"> • Development partners should complement each other; focus on what others are not doing. • UN agencies and IFIs should compare notes and analysis more closely, especially on budget review. • Donor coordination and sharing information are essential toward providing sensible and coherent support to development.

Results of the survey taken during the meeting:

1. In your view, what are the crucial development areas for Mongolia to focus actions aimed at ending poverty and shared prosperity throughout the country over the next decade? (PLEASE SELECT UP TO 5)

ANSWER CHOICES-	RESPONSES-
- Public sector governance/reform	100.00% 8
- Natural resource management	75.00% 6
- Anti corruption	50.00% 4
- Foreign investment	50.00% 4
- Education	37.50% 3
- Road and transport	25.00% 2
- Economic growth	25.00% 2
- Environmental protection and pollution control	25.00% 2
- Energy	25.00% 2
- Urban development	25.00% 2
- Rural development	12.50% 1
-	12.50%

ANSWER CHOICES-	RESPONSES-
Agriculture, livestock, and forestry	1
-	12.50%
Job creation/employment	1
-	12.50%
Climate change	1
-	0.00%
Financial markets	0
-	0.00%
Other (please specify)	0
-	0.00%
Private sector development	0
-	0.00%
Trade and exports	0
-	0.00%
Disaster risk management	0
-	0.00%
Social protection	0
-	0.00%
Health	0
-	0.00%
Water and sanitation	0
-	0.00%
Equality of opportunity	0
-	0.00%
Food security	0

2. How do you think the World Bank Group can have the most impact on its assistance to Mongolia? In which areas do you believe the WBG should focus in the next 4-6 years? (please select up to 3 options)

Supporting human development	84.62%
Supporting public sector governance	53.85%
Supporting natural resource management and environmental protection	30.77%
Supporting investment in infrastructure	30.77%
All are equally important	30.77%
Supporting the business environment	7.69%