

**Mongolia**  
**The SCD-CPF Engagement meeting with**  
**Darkhan Government Officials**  
**September 7, 2017**

The World Bank Group (WBG) met with 16 representatives of the local government and Citizen’s Assembly in Darkhan aimag on September 7 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><b>Inputs on country diagnostic (opportunities, challenges, and pathways to end poverty &amp; promote shared prosperity)</b></p>	<p><b><u>Opportunities:</u></b></p> <ul style="list-style-type: none"> <li>• Many challenges have been overcome by the country for it to come this far. Progress has been made in many sectors – attributable to both internal and external factors, but external factors dominating, such as economic international relations, support from international organizations, foreign investment. Previously, the country had very limited international relations – especially in terms of economic cooperation. There were many opportunities that were presented by the various international cooperation arrangements but how well the opportunities been utilized is a question.</li> <li>• The country’s mineral resources have benefited the economy – many lessons have been learned along the way.</li> <li>• Our location being between two large nations is an opportunity for us to penetrate into these markets.</li> <li>• Infrastructure is well developed in Darkhan – so more processing factories could be established.</li> <li>• Livestock genetic fund is being established, so it can be utilized to promote intensified animal husbandry.</li> <li>• The small population is an opportunity itself as policies can ideally reach this small number of people.</li> <li>• Past World Bank-financed projects contributed to the local development and helped improve citizens’ knowledge on determining priorities.</li> </ul> <p><b><u>Challenges</u></b></p> <p><b>Macroeconomic and fiscal situation</b></p> <ul style="list-style-type: none"> <li>○ Macroeconomic stability is lacking. There are two factors contributing to the instability: i) decentralization/hyper democracy is not appropriate for Mongolia.</li> </ul>

Instead, more unique type of democracy better suited for Mongolia should be pursued.

- Regional development strategies building on the unique characteristics and comparative advantages of the regions could be developed. Development of regional development strategy needs funding support as well as systems reform that takes into account the country's main characteristics and that fits to the country circumstances is needed.
- The budget year is the same as the calendar year – this seems not appropriate for a country like Mongolia that has a short active season for construction, agriculture, etc. Current calendar leads to missing of short construction seasons and delays of projects.
- In practice, financing for the annual indicative budget for the Local Development Funds is never provided unfavorably affecting the different parties engaged.
- Basic economic indicators are not correctly estimated – may need some adjustments.

### **Governance and politics**

- Government has not been able to maintain stable policies constraining long term vision for the country. The election cycle seems short causing many short-lived policies and programs, high political instability. The instability of government policies has caused results being not maintained. Mongolia does have long-term development policy documents but their implementation is not sustained.
- Political parties have not yet become mature institutions that can lead and guide the country. They need to mature and have policy debates and discussions instead of protesting on the streets. The country is too much dependent on politics – so policies are not based on principles but are on short term election promises. Government instability is also affecting FDI as predictability is needed for FDI. Not a single government has served 2 terms.
- Civil service stability is also compromised. The continuous learning curve for the changing civil service has been constraining development.
- Autonomy/self-regulation of local governments has also been lacking. Locally earned revenues contribute to the state budget instead of staying in the local province and benefiting the people. Wealth and funds of some provinces are drawn out to other provinces on the principles of equality.
- Poverty has been an issue due to inequitable distribution of wealth from the mining sector.
- Administrative division of the country could be revisited in order not to have the population be very scattered around the country.
- Censorship of media, especially of social media may be required in order to reduce its potential negative impacts on the society.
- The public opinion tends to shift between two extremes needing to improve citizens' education in terms of political decision making, financial markets, public service delivery e.g. there is this misconception and expectation of how the government should provide free services while private sector would charge for services.

	<p><b>Private sector development</b></p> <ul style="list-style-type: none"> <li>○ Private sector development is important but easing of the requirements with regards to standards is needed to help develop micro and family businesses.</li> <li>○ Efficient government intervention has been lacking. Government should participate less but support more.</li> <li>○ Legal environment and policies need to be stable enabling opportunities for investors.</li> <li>○ Taxes are a big burden on businesses so measures to reduce tax rates (down to one-digit) or social insurance contributions would be welcome.</li> <li>○ Private sector is shrinking, interest rates are high.</li> <li>○ Capital markets should be more developed to attract retail investors.</li> </ul> <p><b>Employment and jobs</b></p> <ul style="list-style-type: none"> <li>○ Infrastructure financing support has been provided but not much in job creation.</li> <li>○ Mongolians are getting used to free and universal provision of welfare, there is need to change this mentality. Instead of getting a job, people are getting used to receiving welfare which is hindering development.</li> <li>○ Value of labor and distribution of wealth is not equitable– business owners cut a bigger share to themselves.</li> <li>○ Only 30% of the overall population have stable jobs. Majority of young graduates do not have jobs, youth unemployment is a growing issue. Although trainings and TVET programs are available, jobs are not sufficient.</li> <li>○ High tax rates from individuals' income intended for social welfare payments. Instead, the tax could be used to provide apartments for staff which will promote long term stable jobs and solve housing issue.</li> </ul>
<p><b>Inputs on WBG strategy and partnerships</b></p>	<p>Sectors:</p> <ul style="list-style-type: none"> <li>• Escaping the current economic crisis should be the focus. Once the basis of the economy revives, other sectors can then be developed.</li> <li>• Sectors creating value added should be supported.</li> <li>• Agriculture and animal husbandry – Support in processing of raw materials for final products and potentially for export. In this regard, twinning of traditional technology with modern technology could be utilized to generate products for the international market. Value added production in the agricultural sector would benefit from support to extension services e.g. support to researchers and scientists and develop organic niche products. New varieties and breeds of plants could be introduced e.g. fruits, corn, medicinal herbs, etc. Focus on growing berries, fruits and herbs rather than only basic crops. Cooperatives could be developed to achieve efficiency and improve livelihoods of farmers and herders.</li> <li>• Many SME-oriented projects get implemented, but they are not sustainable in the long run after project closes. Local market and demand for products is low, so develop more export-oriented SMEs and connect to external markets.</li> </ul>

	<ul style="list-style-type: none"> <li>• Transportation and logistics: The country is landlocked so there is much dependence on transportation and logistics. International development partners could engage in this area. Develop railways to increase competitiveness of Mongolian products.</li> <li>• Human development issues should be addressed. Education needs systemic changes and requires educating the teachers further. Support universities in Darkhan to support population growth.</li> <li>• Health issues, especially public health issues need to be addressed focusing on prevention and increased funding and scope of public health promotion in Mongolia. Changes to the legal environment is needed and the e-health system requires further support for improvements and sophistication.</li> <li>• Banking and financial sector --- support is needed in enabling the environment for low interest loans and further development of the financial market to increase public access to the financial market and financial resources. Foreign banks should be allowed to enter the market given lack of financing and high interest rates.</li> <li>• Employment promotion needs further engagement. Focus the support on youth and the age group of 45+ who have less access to jobs. Support SMEs and develop industries in order to further promote job creation and reduce poverty. The size of financial support for promoting employment should be more than the current level and be sufficient for purchasing equipment.</li> </ul>
	<p><b>Approach and implementation:</b></p> <ul style="list-style-type: none"> <li>• Ensure sustainability of programs beyond the projects.</li> </ul>
<p><b>Inputs on WBG engagement</b></p>	<ul style="list-style-type: none"> <li>• Continue supporting electronic library of books beyond the past READ project.</li> <li>• Protection of cultural heritage– both tangible and intangible.</li> <li>• Support to building a road to Sharyn Gol soum where there is a mine that supports livelihood of the vast majority of the citizens in the local area.</li> </ul>

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)

<input type="checkbox"/> Job creation/employment	12	75%
<input type="checkbox"/> Education	9	56%
<input type="checkbox"/> Public sector governance/reform	7	44%
<input type="checkbox"/> Food security	7	44%
<input type="checkbox"/> Health	5	31%
<input type="checkbox"/> Foreign investment	5	31%

<input type="checkbox"/> Trade and exports	5	31%
<input type="checkbox"/> Anti corruption	4	25%
<input type="checkbox"/> Rural development	4	25%
<input type="checkbox"/> Urban development	4	25%
<input type="checkbox"/> Private sector development	3	19%
<input type="checkbox"/> Agriculture, livestock, and forestry	3	19%
<input type="checkbox"/> Economic growth	3	19%
<input type="checkbox"/> Environmental protection and pollution control	2	13%
<input type="checkbox"/> Water and sanitation	2	13%
<input type="checkbox"/> Climate change	2	13%
<input type="checkbox"/> Financial markets	1	6%
<input type="checkbox"/> Social protection	1	6%
<input type="checkbox"/> Natural resource management		0%
<input type="checkbox"/> Disaster risk management		0%
<input type="checkbox"/> Equality of opportunity	0	0%
<input type="checkbox"/> Road and transport	0	0%
<input type="checkbox"/> Energy	0	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)

<input type="checkbox"/> Supporting human development	11	69%
<input type="checkbox"/> Supporting public sector governance	9	56%
<input type="checkbox"/> Supporting the business environment	8	50%
<input type="checkbox"/> Supporting investment in infrastructure	7	44%
<input type="checkbox"/> Supporting natural resource management and environmental protection	2	13%
<input type="checkbox"/> All are equally important	2	13%