

Mongolia
The SCD-CPF Engagement Meeting with Darkhan Private Sector
September 7, 2017

The World Bank Group (WBG) met with 14 representatives of the private sector 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 style="text-align: center;">Inputs on country diagnostic (opportunities, challenges, and pathways to end poverty & promote shared prosperity)</p>	<p>Opportunities</p> <ul style="list-style-type: none"> • Darkhan has ample opportunities for developing manufacturing. Hence, collaboration between the government and the private sector is being focused on this direction. • All types of manufacturing are present in Darkhan. Eco-products and natural resources are abundantly available, so if processed, there is a large market potential internationally. • There is a favorable environment for transporting goods. • The production of value added products could be promoted with enhanced standards, sophisticated marketing strategy, and with sufficient investment. <p>Challenges</p> <ul style="list-style-type: none"> • Low priced import products do not provide an opportunity for the local industries to be developed. • Government intervention is too much in private businesses distorting the market principles and the level playing field for businesses. Government funding goes to bigger companies and some government projects are not feasible for the private sector. • More convening and consultation is needed for a public-private dialogue or forum. • Bribery is an issue. For instance, for obtaining land use titles. Local government policies of authorizing land use in areas where there are old factory remains have been causing higher investment costs as substantial investment is required for reviving/rehabilitation those old factories. Bureaucracy of the government is also standing in the way. Corruption, fraud and the gap between the rich and the poor are increasing. Increasing income inequality. • Local eco products have a potential to be exported but there are many requirements with regards to standards to be met and the private sector needs

	<p>support in meeting those requirements. Also, technology improvements for quality enhancement and better efficiency call for high costs. So far, however, there is no support from the government - the claimed government support to the private sector is not visible.</p> <ul style="list-style-type: none"> • SME support has been discussed for many years but there is no real support and SMEs are supporting themselves through obtaining high cost loans. SME loans are only for 5 years despite the relatively low interest rate. The loan maturity could be prolonged given our local products' seasonal nature (due to the declining purchasing power in the country, unsold stock remains from previous years e.g. in honey production.). The maturity could be increased to 10 years, at the minimum. Also, a small number of businesses are covered by the SME loans thus access to those loans is very competitive and have stringent requirements. • Isolated small-scale manufacturing shops are popular in the local area; consolidation may bring further development in the production sector. Production with low processing and no 'clustering' effect to add less value for products. • Export is an opportunity because domestic market is small but how to export products is the question. There are many requirements with regards to standards and documents needed to be met for export, especially in the case of food production. Oversupply of products need to be exported. Export should target more value-added and more premium products. • Data and information required for carrying out market studies are not accurate. Cost of hiring researchers is high, so accessing the international market becomes difficult. Also, R&D is costly, so regular product improvements is not feasible. • There is a mismatch between the labor market demand and supply. TVET graduates do not match the labor market needs. Their training should match what practical skills are needed on the job. Education outside the capital is poor, driving young people into the capital. • Stability of skilled labor in the private sector was generally maintained until the mining boom happened a few years back taking many people away to mining sector. The government should track job seekers' tenure at private companies instead of just surveying private businesses on how many jobs they had created. •
<p>Inputs on WBG strategy and partnerships</p>	<p>Sectors:</p> <ul style="list-style-type: none"> • Poverty reduction should be a priority. Equitable distribution of wealth can be achieved through job creation and support to SMEs. • Provide support the education sector to carry out reforms and strengthen quality and access (there are not enough schools and kindergartens, so kindergarten enrollment for instance is currently managed through an online lottery.) • Support the agricultural sector (which already is a government priority) could be increased, especially through helping obtain producers the appropriate equipment to enhance productivity and revenue generation. • Infrastructure is still a priority. Families in the rural areas do not have access to electricity, so renewable energy could be tapped on further

	<ul style="list-style-type: none"> • Access to finance could be widened: Low interest and long maturity loans are something private sector players continue seeking actively. • Develop SMEs, provide funding to SMEs with improved supervision and monitoring of funds. If given, funding amount should be sufficient to the needs rather than giving out small insufficient funds. • Support to an ongoing, successful operation/business to enable them operate at full capacity may prove to be more effective and efficient. Job creation can be strengthened through this approach.
	<p>Approach and implementation:</p> <ul style="list-style-type: none"> • The WBG should try to directly connect with professional/sector associations in addition to working through the government. From the other side, actors in the same sector could then work together to develop their proposals for financing. • There are concerns around project funds not reaching the intended beneficiaries, so monitoring should be continued and strengthened.
Inputs on WBG engagement	<ul style="list-style-type: none"> • Export Development Project has restrictions on profitability of the beneficiary businesses. Reconsideration to the requirements may be needed for newer businesses, which have not yet recovered their initial investment costs.
Others	<ul style="list-style-type: none"> • These discussions could have been more effective if the private sector and the government were in the same room.

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"/> Private sector development	11	79%
<input type="checkbox"/> Financial markets	9	64%
<input type="checkbox"/> Education	8	57%
<input type="checkbox"/> Anti corruption	6	43%
<input type="checkbox"/> Job creation/employment	6	43%
<input type="checkbox"/> Rural development	6	43%
<input type="checkbox"/> Health	6	43%
<input type="checkbox"/> Food security	6	43%
<input type="checkbox"/> Trade and exports	6	43%
<input type="checkbox"/> Public sector governance/reform	3	21%
<input type="checkbox"/> Agriculture, livestock, and forestry	2	14%
<input type="checkbox"/> Environmental protection and pollution control	2	14%

<input type="checkbox"/> Equality of opportunity	2	14%
<input type="checkbox"/> Water and sanitation	2	14%
<input type="checkbox"/> Natural resource management	1	7%
<input type="checkbox"/> Road and transport	1	7%
<input type="checkbox"/> Energy	1	7%
<input type="checkbox"/> Economic growth	0	0%
<input type="checkbox"/> Disaster risk management	0	0%
<input type="checkbox"/> Foreign investment	0	0%
<input type="checkbox"/> Urban development	0	0%
<input type="checkbox"/> Social protection	0	0%
<input type="checkbox"/> Climate change	0	0%
<input type="checkbox"/> Other:	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 the business environment	9	64%
<input type="checkbox"/> Supporting investment in infrastructure	6	43%
<input type="checkbox"/> Supporting human development	6	43%
<input type="checkbox"/> Supporting natural resource management and environmental protection	4	29%
<input type="checkbox"/> Supporting public sector governance	3	21%
<input type="checkbox"/> All are equally important	1	7%