INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL FINANCE CORPORATION

MULTILATERAL INVESTMENT GUARANTEE AGENCY

COUNTRY PARTNERSHIP FRAMEWORK

FOR

MONGOLIA

FOR THE PERIOD FY21-FY25

December 2020 – Draft for Consultations

China, Mongolia and Korea Country Management Unit
East Asia and Pacific Region

International Finance Corporation
East Asia and Pacific Region

The Multilateral Investment Guarantee Agency
# Table of Contents

I. INTRODUCTION .................................................................................................................. 4

II. COUNTRY CONTEXT AND DEVELOPMENT AGENDA .................................................. 5

    2.1 Social and Political Context ............................................................... Error! Bookmark not defined.

III. WORLD BANK GROUP PARTNERSHIP FRAMEWORK ............................................. 11

    3.3 Objectives supported by the WBG Program in each focus area ......................... 12

    Focus Area 1: Supporting economic recovery and fostering economic stability ........ 12

    Focus Area 2: Boosting competitiveness and creating quality jobs ....................... 14

    Focus Area 3: Expanding human capital and improving quality of life .................. 19

    3.4 Implementing the Country Partnership Framework ........................................... 24

IV. MANAGING RISKS TO THE CPF PROGRAM ........................................................... 26
<table>
<thead>
<tr>
<th>ACRONYMS AND ABBREVIATIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ADB</strong></td>
</tr>
<tr>
<td><strong>AML</strong></td>
</tr>
<tr>
<td><strong>AS</strong></td>
</tr>
<tr>
<td><strong>ASA</strong></td>
</tr>
<tr>
<td><strong>BoM</strong></td>
</tr>
<tr>
<td><strong>CEM</strong></td>
</tr>
<tr>
<td><strong>COVID</strong></td>
</tr>
<tr>
<td><strong>CPF</strong></td>
</tr>
<tr>
<td><strong>CPS</strong></td>
</tr>
<tr>
<td><strong>CFT</strong></td>
</tr>
<tr>
<td><strong>DBM</strong></td>
</tr>
<tr>
<td><strong>DP</strong></td>
</tr>
<tr>
<td><strong>DPO</strong></td>
</tr>
<tr>
<td><strong>EAP</strong></td>
</tr>
<tr>
<td><strong>EMSO</strong></td>
</tr>
<tr>
<td><strong>EU</strong></td>
</tr>
<tr>
<td><strong>FATF</strong></td>
</tr>
<tr>
<td><strong>FDI</strong></td>
</tr>
<tr>
<td><strong>FY</strong></td>
</tr>
<tr>
<td><strong>GBV</strong></td>
</tr>
<tr>
<td><strong>GDP</strong></td>
</tr>
<tr>
<td><strong>GFMIS</strong></td>
</tr>
<tr>
<td><strong>GHG</strong></td>
</tr>
<tr>
<td><strong>IBRD</strong></td>
</tr>
<tr>
<td><strong>IDA</strong></td>
</tr>
<tr>
<td><strong>ICT</strong></td>
</tr>
<tr>
<td><strong>IEG</strong></td>
</tr>
<tr>
<td><strong>IFC</strong></td>
</tr>
<tr>
<td><strong>IMF</strong></td>
</tr>
<tr>
<td><strong>LDF</strong></td>
</tr>
<tr>
<td><strong>MIGA</strong></td>
</tr>
<tr>
<td><strong>MPP</strong></td>
</tr>
<tr>
<td><strong>MSME</strong></td>
</tr>
<tr>
<td><strong>NBFI</strong></td>
</tr>
<tr>
<td><strong>NDC</strong></td>
</tr>
<tr>
<td><strong>NSO</strong></td>
</tr>
<tr>
<td><strong>OT</strong></td>
</tr>
<tr>
<td><strong>PEF</strong></td>
</tr>
<tr>
<td><strong>PFM</strong></td>
</tr>
<tr>
<td><strong>PIM</strong></td>
</tr>
<tr>
<td><strong>PLR</strong></td>
</tr>
<tr>
<td><strong>PPP</strong></td>
</tr>
<tr>
<td><strong>RETF/RE</strong></td>
</tr>
<tr>
<td><strong>SCD</strong></td>
</tr>
<tr>
<td><strong>SDGs</strong></td>
</tr>
<tr>
<td><strong>SLP</strong></td>
</tr>
<tr>
<td><strong>SME</strong></td>
</tr>
<tr>
<td><strong>SORT</strong></td>
</tr>
<tr>
<td><strong>TA</strong></td>
</tr>
<tr>
<td><strong>TVET</strong></td>
</tr>
<tr>
<td><strong>UB</strong></td>
</tr>
<tr>
<td><strong>WB</strong></td>
</tr>
<tr>
<td><strong>WBG</strong></td>
</tr>
</tbody>
</table>
I. INTRODUCTION

1. The year 2021 marks the 30th anniversary of the partnership between the World Bank Group (WBG) and Mongolia (1991-2021). In the earliest days, much of the WBG’s support was aimed at helping Mongolia’s transition from a planned to a market economy. The sharp cut of external assistance necessitated support for keeping key infrastructure operational and building the foundation of a private sector, new financial and legal systems. Over the years, engagements on poverty reduction and human development deepened, as did support for rural livelihoods. In recent years, the WBG supported economic growth through the development of the mining sector and economic diversification, and focused on stabilizing the economy following sharp economic downturns in 2009, 2014 and 2020.

2. The last WBG country strategy for Mongolia, the FY13–17 Country Partnership Strategy (CPS), was discussed by the WBG Board of Directors on May 7, 2012, and subsequently extended twice until December 2020. The strategy was built around three pillars: (1) enhance Mongolia’s capacity to manage the mining economy sustainably and transparently; (2) build a sustained and diversified basis for economic growth and employment in urban and rural areas; and (3) address vulnerabilities through improved access to services and better service delivery. Two Performance and Learning Review (PLR) were prepared in 2016 and 2019. Both PLRs updated the WBG engagements based on the changing environment in Mongolia, adjusted the results framework, and extended the CPS.

3. This Country Partnership Framework (CPF) covers the period of FY21-25 and is timed to align with the mandate and development priorities of the new government appointed after the June 2020 parliamentary elections. The CPF is anchored in Mongolia’s long-term development strategy, Mongolia Vision 2050, and aligned with the Guidelines on Economic and Social Development (2020-2025) and the Government Action Plan (2020-2024), adopted by the newly elected parliament. The CPF has been informed by the 2018 Mongolia Systematic Country Diagnostic (SCD) and other key analytical work including a 2020 Country Economic Memorandum (CEM), the CPS Completion and Learning Review (CLR), and two rounds of consultations with stakeholders in Mongolia including a Client Survey.

4. The CPF is prepared at a critical juncture in Mongolia’s development, as the ongoing COVID-19 pandemic continues to take a heavy toll. Mongolia’s economy was recovering from the 2016 economic downturn when the COVID-19 crisis hit. While the COVID-19 impact on public health continues to evolve, it has already exerted a significant shock on Mongolia’s economy and people’s livelihoods. It has created a new operating environment, but also accentuated some of the fundamental development challenges in Mongolia. The country is now facing a dual challenge of providing immediate relief, responding to the health threat and mitigating economic impacts in the short term, while seizing the crisis to foster a more sustainable, inclusive, and resilient economic recovery that addresses its fundamental challenges. The CPF is designed to support Mongolia’s effort to address this dual challenge. In addition, this is the first CPF since Mongolia graduated from IDA and became an IBRD-only client on July 1, 2020.
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 3.3 million people inhabiting a territory four times the size of Germany. Landlocked between Russia and China, its vast rural areas lack basic infrastructure and connectivity. Almost half of its population live in the capital Ulaanbaatar and its surroundings and the rest is spread across small urban centers and vast steppes where people herd livestock such as sheep, goats, horses, cattle, yaks, and camels. Wintertime temperatures often dip below -30 degrees Celsius. Agricultural 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 engage in 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 being often their only source of income. Alternate job opportunities are scarce in rural areas.

6. Since the early 1990s, Mongolia has transitioned to a democratic governance system with a market-based economy. It adopted a new Constitution in 1992 and became a parliamentary republic. It has held eight 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. In the latest parliamentary election in June 2020, the ruling MPP, running on an economic reform program and COVID-19 response actions, won a landslide victory, obtaining 62 out of 76 seats in the parliament. The Presidency is currently held by DP, with the next presidential election scheduled for 2021. 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. The Constitution was amended in November 2019, intended to clarify in the division of power and accountability of the parliament, cabinet, and presidency, strengthen the parliament and cabinet, improve fiscal discipline and independence of the judiciary, and bolster local governance.

7. Although Mongolia’s transition to democracy has been remarkably peaceful, the ensuing politics have been volatile. Before the current Prime Minister came into office in 2017, fifteen Prime Ministers had served the country since 1992 with an average tenure of under 1.5 years, reflecting instability within coalitions and ruling parties. The Presidential election in 2017 was characterized by the first ever run-off elections in Mongolia between the two leading candidates, highly polarized media and casting of white ballots (a form of protest voting in which no candidate is selected) by more than 8 percent of voters in rejection of both candidates. Public protests in response to such critical issues as air pollution, corruption and revelations of offshore accounts related to high-level government officials, unemployment, and anti-mining movements are common in Mongolia.

8. Mongolia is endowed with important assets and has achieved strong development results since the 1990s. Mongolia possesses world-class mineral deposits (e.g. coking coal, copper, gold), pastureland and pristine nature. It borders the second largest economy in the world and has an educated population. It has demonstrated significant success in reducing poverty and elevating human well-being since the early 1990s. Mongolia fares relatively well in the World Bank’s Human Capital Index (HCI), with a score of 0.61 in 2020, higher than the average of the EAP region and lower middle-income countries. Mobile phone
networks cover 99% of the population, with 70% smartphone penetration. Access to banking services is one of the highest in the world.

9. But stagnation in poverty rates, 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. Mongolia has significant mineral wealth located throughout its territory and on a per capita basis Mongolia ranks as one of the most richly endowed countries in the world. Oyu Tolgoi (OT) (copper and gold) and Tavan Tolgoi (TT) (coal), once fully developed, will be among the largest mines in the world. Investments in exploration of mineral deposits could yield additional world-class mines. This mineral wealth is a key asset for Mongolia’s development, and it has also raised expectations of Mongolians. However, the mining sector only employs about 4 percent of the workforce and has created new environmental and social challenges. Many Mongolians view dependence on mining critically, and especially question the role of foreign investors in the mining sector. The ownership and management of mineral resources therefore constitute key issues in political debates and this, in turn, is a source of uncertainty which affects investors and capital markets.

10. Landlocked between China and Russia, Mongolia places great importance on its relationships with its two big neighbors, while striving to strengthen relations with “third neighbors” and seeking greater political and economic integration in the region. China has been Mongolia’s largest foreign investor and trading partner, with close to 90 percent of Mongolian exports going to China. The Russia-Mongolia relationship has a long history, and a comprehensive strategic partnership was ratified in 2020. The China-Mongolia-Russia route is an economic corridor with potential, and the reported Russia-China gas pipeline through Mongolia could bring gas supply to the country. In recent years, Mongolia has been active in promoting its ‘third neighbors’ policy, and has strengthened relationships with Japan, South Korea, the United States, the European Union, and India. Japan has been the largest bilateral donor for Mongolia. Mongolia’s relationship with the United States also agreed on a “strategic level partnership” during the President’s visit to the United States. At the regional level, since the 1990s, Mongolia has joined the Association of South East Asian Nations (ASEAN) Regional Forum, the Asia–Europe Meeting, and other regional and inter-regional forums. It is also seeking to join Asia-Pacific Economic Cooperation (APEC) as an additional platform to further expand and diversify its economic relationships.

11. COVID-19 has already impacted the social and political landscape in Mongolia. The authorities have taken proactive measures in response to the COVID-19 pandemic since early 2020. No case of local transmission was detected until November 2020. Polls suggest that the ruling MPP’s landslide election victory in June could be partially attributed to the government’s proactive COVID response.¹ After the emergence of local transmissions in November, the government quickly introduced strict lockdown measures, which have been followed well so far. However, the poor and low-income households are vulnerable to an extended period of shutdown of economic activities, especially at the onset of a long winter. Other social issues such as increased domestic violence potentially attributed to lockdown measures are important causes of concern.²

12. Mongolia’s national poverty headcount rate decreased slightly from 29.6 percent in 2016 to 28.4 percent in 2018. Between 2016 and 2018, poverty was declining somewhat in rural but not in urban

---

¹ See for example, Sant Maral foundation survey, May 2020. https://830a862d-3fe6-40e6-b731-5a65590fe0cf.filesusr.com/ugd/915e91_6967750f46d24ae49e445089ead06009.pdf.
² It was reported that 2244 domestic violence perpetrators were investigated during January – March 2020, a 99.3% increase from the same period in 2019, and 97.4% of the perpetrators were men. There was also a 76.6% increase in people seeking protection in shelter houses. The report follows the first round of lockdown measures.
areas. Growth in rural areas was faster and favorable to the poor, contributing to reducing rural poverty by 4 percentage points from 34.9 percent in 2016 to 30.8 percent in 2018. By contrast, less-inclusive growth in urban areas was accompanied by stagnating poverty, leaving the poverty headcount unchanged at 27 percent from 2016 to 2018. Poverty is increasingly concentrated in urban areas. While the percentage of poor under the national poverty line is substantial, the number of people living under the international poverty line of US$3.20 (2011 PPP) for lower-middle income countries remains around 5 percent.³

13. **Inequality has remained stable over the decade.** Between 2011 and 2018, the bottom 40 percent achieved 1.0 percent annual growth in real consumption per capita, which is 0.33 percentage points higher than the average per capita consumption growth. These shared prosperity patterns have also been accompanied by stable inequality, with the consumption Gini index remaining between 32-34 over the same period.

14. **The COVID-19-related economic shock is threatening recent modest gains in poverty reduction.** A recent household phone survey conducted by the National Statistics Office of Mongolia and the World Bank in late May⁴ indicates that the measures to curb the COVID-19 pandemic have significantly affected self-employed and herder families. Nearly 90 percent of households engaged in family businesses experienced income losses since end-January 2020. Herders were able to work uninterrupted during the pandemic, but their livestock income has declined due to logistics disruptions and falling cashmere prices. Wage employment was less affected by the COVID-19 mitigation measures, yet more than one in three households reported wage income losses. Despite the Government’s provision of additional social assistance benefits and support to employment, the survey reported that nearly a quarter of all households and over half of poor households⁵ expressed concerns about their future food security and household finances.

15. **The COVID-19 induced economic contraction so far has had widespread impacts across the welfare distribution.** The poor are more likely to be in low-skilled jobs in the affected sectors such as manufacturing, utilities, mining, and personal services, while workers at the top of the welfare distribution are more likely to have formal job protection or skilled jobs in services that may be more amenable to working from home. As a result, workers at the bottom of the welfare distribution, particularly the bottom 20 percent, were significantly more likely to be out of work between January and May 2020. While the wealthy may have been less vulnerable to job losses, income losses were felt across the welfare distribution. Lower external and internal demand, business closures, and reduced work hours have resulted in lower wages and/or business profits throughout the distribution.

16. **The government’s COVID response has been supported by international partners including the WBG.** Overall, Mongolia is expected to receive fresh support from development partners in an amount close to US$ 400 million. The Bank has provided $62.85 million in emergency support so far. This includes

---

³ As countries have grown economically, the level of extreme poverty based on the International Poverty Line (IPL, $1.90/day 2011PPP) has gradually become less relevant to the lives of the people in middle-income countries. In developing EAP, China, Thailand, Mongolia, and Malaysia all have extreme international poverty rates of less than 1 percent. For most countries, national poverty lines are increasing with national per capita consumption and income. The lower-middle income class (LMIC) poverty line ($3.2/day 2011PPP), based on the median values of national poverty lines from lower-middle income countries, sets international poverty benchmarks among lower-middle income countries.


⁵ Poverty status is based on the 2018 Household Socio-Economic Survey
an emergency project ($26.9 million) for the health sector response in the first batch of the Global COVID-19 Multiphase Programmatic Approach (MPA) and reallocated resources from existing projects in education, social protection, governance and SME support. IFC has also provided financing to business and microlenders in response to COVID-19.

17. The WBG’s 2017 Strategic Country Diagnostic (SCD) for Mongolia identifies three main challenges: unstable economic growth, population wellbeing at risk and growing environmental stress, and some of these challenges have been further accentuated by the COVID-19 crisis. The recurring boom-and-bust cycles put at risk past gains in standards of living and poverty reduction. 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. Climate change and human actions have brought about higher disaster risks and environmental degradation.

18. The SCD proposes two main strategies to tackle Mongolia’s development challenges, the formation of intangible capital and genuine savings. The formation of “intangible capital” means the creation of efficient regulations and capable institutions that effectively design, implement and monitor government plans and actions. This intangible capital is needed to better manage volatile resource revenues, promote a competitive business environment, provide quality social services and protect natural resources. Although Mongolia’s corpus of regulations is strong and modern in many areas, there is often a significant implementation gap to better enforce and monitor what is already on the books. On the other hand, Mongolia needs to accumulate a more diversified set of financial, physical and human capital assets. These “genuine savings” seek to transform the rents from commodity exports into a new mix of productive assets so that economic diversification evolves naturally as relative endowments and competitiveness of the country shift from natural assets to human and other forms of capital. This will make Mongolia less vulnerable to external shocks. So far the record is mixed: while there has been strong investment in mining in the recent past, investments in infrastructure, human capital and the preservation of natural resources have been relatively low.

19. Based on the two strands of challenges, the SCD proposes a list of five development priorities for Mongolia.

- Governance: a cross-cutting root-issue behind all key challenges. Prudent macroeconomic management is the key economic governance challenge. In addition, three broad governance issues are highlighted: pro-cyclical election policies (exacerbating boom-bust-bailout cycles), poor enactment and implementation of laws (an “implementation gap”), and clientelistic political competition, with frequent shifts following changes in parliamentary composition, including frequent and deep turnover of civil servants.

---

6 World Bank, Mongolia: Systematic Country Diagnostic. 2018. https://openknowledge.worldbank.org/bitstream/handle/10986/30973/mongolia-scd-final-version-november-2018-11282018-636792121231072289.pdf?sequence=1&isAllowed=y. The SCD was prepared to inform the CPF originally scheduled for 2018. The CPF was however subsequently postponed and a PLR was prepared instead in 2019. Nonetheless, the analysis by the SCD remains fundamentally valid, and aligned with other analytical work by the WBG.

7 These are partly derived from the WBG’s Diversified Development Report, which examines the development experience of several resource-rich countries. See Gill, Indermit et al, Diversified Development. Making the Most of Natural Resources in Eurasia, WBG, Washington, 2014.
• **Jobs and private sector development: the fundamental problem for most Mongolians.** High unemployment rates, especially among youth, and low female labor participation indicate that more can be done in terms of job creation. As the economy grows, skills mismatch of recent graduates (especially at the tertiary level) is a cause for stagnating employment, productivity, and fulfillment of higher value jobs. Private Sector Development as the main driver of growth and jobs is constrained by fiscal crowding out and unpredictable investment climate. Despite advances in Doing Business indicators, private investors still perceive Mongolia as a high-risk environment.

• **Human capital accumulation and protection: turn mining riches into wellbeing.** Remaining health challenges call for an expansion and quality enhancement of primary care, together with better incentives in the hospital system to cope with growing demands from rising non-communicable diseases. While public spending on education remains at mid-level (compared to peer countries), the supply-demand gap is widening – especially for critical early childhood education – given the country’s young demographics and fast urbanization. Moreover, upskilling in poor-quality tertiary and vocational education is much needed to prepare the incoming workforce for higher value jobs. In addition, the social protection system will need to be more targeted and fiscally sound. Despite its recognized merits in terms of coverage and equity, it has had limited impact on easing macro-shocks or spurring poverty reduction. Pensions deserve special attention as fiscal subsidies to the pension system continue to balloon.

• **Infrastructure: the groundwork of future diversification.** Being land-locked and large in size, transport and logistics are acute concerns for Mongolia. The state is heavily involved in core infrastructure such as power, water and transport, and is likely to remain an important player in these areas. However, more private sector investment and PPP options would ease fiscal pressures and help to curb rising public debt, as well as provide end-consumers of better technology, governance, and efficiency in the provision of utilities.

• **Protection of Natural Resources: shortsightedness would be a grave mistake.** Climate change and recent economic developments contribute to a deterioration of natural resources. The depletion of water sources in some areas, high levels of air pollution in UB, pasture degradation and increasing disaster risks call for enforcement of laws and regulations and additional investments in improved infrastructure. Legitimate conflicts of interest in the use of natural resources should be discussed transparently, recognizing the trade-offs involved.

20. **Aligned with the SCD, the Bank’s recent CEM also advocates a shift “from Mines to Minds” in accelerating Mongolia’s development.** The report recommends four sets of key policy actions to build the foundation of a diversified and sustainably growing economy. These include:

- implement countercyclical fiscal and monetary policies to smooth consumption over the business cycle;
- undertake bold investment climate reforms to enhance competition, secure investor rights, and create a more level playing field;

---

• move away from the mindset of diversifying products to expanding endowments, especially better utilization of Mongolia’s young, educated, and female labor force;
• and accelerate the implementation of fundamental governance reforms to reduce political interference, increase transparency, and improve regulatory quality throughout the economy.

21. **Mongolia continues to make progress in closing gender gaps in health and education, but important gaps remain regarding longevity, economic opportunities, ownership and control of productive assets, and exercising voice and agency.** The female labor force participation rate is at 53% compared to the male participation rate of 68% (2019). The gender gap increased from 12 percentage points in 2016 to 15 percentage points in 2019. On average women earn less than men; the gender pay gap has reached 25%. Gender based violence (GBV) remains a widespread social problem: 31% of women have experienced physical or sexual violence in their lifetime, while 58% of ever-partnered women have experienced at least one type of violence. COVID-19 has exacerbated domestic violence. At the same time, the gender gap in life expectancy is widening further: women live 9.67 years longer than men. Adult male mortality is nearly 2.4 times higher compared to that of females.

22. **COVID-19 has exacerbated some of the fundamental challenges identified by SCD and CEM.** On macro and fiscal management, the COVID-19 impact has been significant. How to improve macroeconomic and monetary policies and enforce fiscal discipline have become more challenging. COVID-19 has threatened past gains on human capital through health impacts and loss of education. It has also increased the vulnerability of the poor and underprivileged, which calls for more and better social protection. The need for more targeted and sustainable social protections has become more critical than ever. Increased gender-based violence during the COVID-19 lockdown also highlighted the need to address gender equality and GBV. Similarly, addressing COVID-19 impacts highlighted the need for better ICT infrastructure for digital connectivity.

---

9 The CPF was informed by the following key gender assessments: i) World Bank (2018) Perceptions of Precariousness: A Qualitative Study of Constraints Underlying Gender Disparities in Mongolia’s Labor Market; ii) NSO and ADB, Pilot Survey on Measuring Asset Ownership and Entrepreneurship from Gender Perspective in Mongolia, 2018. And; iii) IRIM (Independent Research Institute of Mongolia) and UNDP (United Nations Development Programme) (2016) Mainstreaming, acceleration and policy support (MAPS) for SDGs: Gender baseline analysis against SDGs in Mongolia.
10 Data from National Statistics Office, April 2020.
11 Data from UNFPA (United Nations Population Fund), 2018.
III. WORLD BANK GROUP PARTNERSHIP FRAMEWORK

Illustration 1: CPF Focus Areas and Objectives

**Overall objective:** promote resilient recovery and inclusive and sustainable growth

<table>
<thead>
<tr>
<th>Focus Area 1: Supporting economic recovery and fostering economic stability</th>
<th>Focus Area 2: Boosting competitiveness and creating quality jobs</th>
<th>Focus Area 3: Expanding human capital and improving quality of life</th>
</tr>
</thead>
</table>

1.1 Providing immediate economic relief to address COVID-19 impact
1.2 Strengthening macro-fiscal management and financial sector stability

2.1 Improving business environment
2.2 Promoting sustainable mining and infrastructure investments
2.3 Increasing productivity in non-mining sectors and urban competitiveness

3.1 Improving access to quality health and education services (including COVID-19 health response)
3.2 Enhancing efficiency and sustainability of social protection systems
3.3 Improving livelihoods and protecting the environment & climate

**Cross-cutting themes:**
Governance: strengthening public institutions and quality of public service delivery
Resilience: enhancing economic, human and environment resilience and building back better

23. While carrying continuity, the new CPF will aim to shift the WBG engagements in Mongolia towards the productive sectors of the real economy through more selective and targeted new lending operations. (1) Moving from smaller projects across a number of sectors to larger investment lending in fewer selected real-economy sectors. The current portfolio of 13 Bank projects covers 9 sectors, with an average financing amount of $26.8 million for each project. It has also had several TA projects as a deliberate effort to directly engage on governance and institutional issues. Under the new CPF, new Bank lending engagements are shifting towards more targeted and potentially fewer but larger operations in the real-economy sectors. The jobs focus is an important factor in driving the direction. Mongolia becoming an IBRD-only client to the Bank also contributes to this shift towards more economic returns on foreign borrowing by the Mongolian authorities. (2) Policy reforms will be advanced by DPO, high-quality
ASAs and other non-lending instruments. The DPO operation will be a critical instrument to advance policy reforms building on the dialogue and technical advice on reforms. In areas such as social protection, water and energy, high-quality analytical work has been a key comparative advantage of the Bank and helps the WBG to remain a respected partner in Mongolia. (3) In addition, addressing the COVID-19 impact and ensuring “build back better” will underline all WBG engagements.

24. **The alignment of the CPF program with the SCD is high.** The SCD priority areas of governance, private sector development, human development, infrastructure and the protection of natural resources all have either a dedicated focus area or one or more related objectives in the CPF. Most of the priority actions identified in the SCD are reflected in the CPF program, either through ongoing engagements or new activities. However, not all aspects of the challenges highlighted in the SCD can be addressed by the WBG. The government’s financing plan and prioritization, engagements by other development partners, the WBG’s available financing, and dialogue with clients all shape WBG’s engagements. For example, in the health sector, no further Bank financing at beyond support to COVID-19 response is planned at this stage, with the Asian Development Bank (ADB) playing a bigger role in the sector. Similarly, the Bank does not have dedicated financing planned in natural resources management, while several bilateral donors are engaged in water supply and treatment. In the infrastructure sector, given the large financing needs especially, mobilizing private sector solutions and collaboration and coordination with other development partners will also be important (see below on donor coordination).

25. **Due to the high volatility of the Mongolian economy and politics and the ongoing COVID-19 crisis, the WBG will remain flexible in its engagement.** Past experience has shown that flexibility is key to provide support in resource rich countries that are vulnerable to price shocks or in countries where government changes frequently. The evolving COVID-19 situation continues to create uncertainties. If the country context changes or new opportunities arise for transformational engagements, the WBG may decide to take on tasks that are not included in the pipeline at the outset of the CPF. Such adjustments would be reflected in the Performance and Learning Review (PLR).

3.3 **Objectives supported by the WBG Program in each focus area**

**Focus Area 1: Supporting economic recovery and fostering economic stability**

**Objective 1.1 Providing immediate relief to address COVID-19’s economic impact**

26. **The impact of COVID-19 on the Mongolian economy and people is already significant and continues to evolve.** The impact on the economy and the population so far has been discussed above. The crisis, however, is not over. The recent outbreak of domestically transmitted COVID-19 cases has increased the risk of a public health crisis. This has also led to tougher temporary lockdown measures, which motivated the extension of some fiscal measures through June 2021 and may worsen the macroeconomic outlook. If the local transmissions are not brought under control and/or the lockdown measures become more protracted, the need for more economic relief will rise.

27. **Building on the emergency response provided so far, the WBG will be ready to mobilize additional resources to provide immediate relief should the need arise from the ongoing pandemic.** The bulk of emergency financing by the WBG so far has focused on public health interventions, social

---

protection through contribution to social insurance funds, and IFC financing to private sector firms. The public health support has facilitated the authorities’ COVID-19 control, prevention and treatment measures, and the vaccine financing could help move beyond the pandemic and support the return of normal economic and social activities eventually. The contribution to social insurance fund is providing immediate relief to workers and firms. IFC financing has supported the beneficiary firm to keep production and jobs, and access to finance by small enterprises. Going forward, depending on the economic needs, WBG’s full menu of instruments will be considered to ensure timely support is provided, including development policy lending.

Objective 1.2 Strengthening macro-fiscal management and financial sector stability

28. Mongolia needs to manage economic volatility that has troubled its economic development. The volatility of Mongolia’s growth reflects in large part fluctuations of commodity prices. Sound macroeconomic policies are necessary to mitigate the resource curse. On fiscal policy, it is necessary to simplify fiscal rules, prioritize debt reduction and functionality of the Fiscal Stabilization Fund (FSF), and strengthen debt management. On monetary policy, limiting foreign exchange (FX) interventions and allowing more flexibility of the nominal exchange rate, and strengthening prudential countercyclical measures will be needed. Customs reforms will also be important to simplify customs procedures and support foreign trade of products beyond natural resources.

29. The WBG will continue to support improving Mongolia’s economic management through both lending and analytical work. The recent CEM provides the analytical underpinning of the Bank’s engagement in supporting economic stabilization. Building on the last Economic Management Support Operations (EMSO), a new programmatic DPO could be envisioned to further support strengthening macro-fiscal resilience, as well as reforms in other critical sectors. Like before, the Bank will coordinate closely with IMF and other partners in policy operations. The ongoing Strengthening Fiscal and Financial Sustainability (SFFS) project provides technical assistance to various reform areas including strengthening fiscal discipline, improving the quality of public financial management, and building economic policy making capacity. Other analytical work could include sectoral PERs or a fiscal risk assessment of SOEs. Finally, an ASA with the National Statistical Office (NSO) will help improve the quality and timeliness of key socio-economic data, as part of the effort to introduce multi-dimensional poverty measures.

30. Despite past efforts to strengthen financial stability, enhance financial efficiency and depth, and improve access to financial services, the banking-dominated financial sector continues to face challenges. The banking sector represents an important source of potential macroeconomic risks, and the reform agenda remains incomplete. While Mongolia has recently been removed from the FATF grey list, work remains to be done on AML/CFT. The Deposit Insurance Corporation of Mongolia (DICOM) requires further strengthening and lacks adequate capital in order to perform its role as a solid financial safety net. Important elements of the financial infrastructure will also need to be enhanced through fostering innovation in payments. Further reforms of the subsidized mortgage program and securitization legal framework, and supporting the reform of the Development Bank of Mongolia (DBM) are also important elements to improve the financial sector.

---

13 The Bank support is providing social insurance contribution relief to over 120,000 informal self-employed workers including 72,000 women, and to about 150,000 workers employed by 18,000 firms affected by COVID-19. Through the Bank support, the beneficiary firms will have additional cashflow to help them stay solvent and retain jobs. The beneficiary workers will have additional cash-in-hand to weather the COVID-19 crisis, while keeping their jobs and access to social insurance benefits.

14 See note 10.
31. The World Bank will have more targeted engagement in the financial sector building on ongoing progress. The World Bank has supported the authorities on financial sector issues for nearly a decade, and contributed to the development and implementation of several major pieces of legislation and reform actions. In 2019-2020, lack of progress in the financial sector effectively ended the Mongolia’s Extended Fund Facility program with the IMF and the Bank’s third EMSO operation. Financial sector reform actions would likely continue to feature in a new DPO. The Bank’s ongoing Strengthening Fiscal and Financial Stability project will continue to provide TA support to support the resilience of the banking sector. The Mongolia Financial Sector TA will support essential banking sector monitoring activities, and provide relevant policy advice. Finally, the Reserves Advisory and Management Program (RAMP) engagement by the World Bank’s Treasury has been providing TA and capacity building services to the Bank of Mongolia in enhancing its reserve management capacity. Treasury may potentially provide advice to the asset management practices of the Future Heritage Fund (FHF) at the government’s request.

Focus Area 2: Boosting competitiveness and creating quality jobs

Objective 2.1 Improving business environment

32. An unpredictable business climate restricts private sector activities in Mongolia. Mongolia ranks #81 out of 190 countries on the ease of Doing Business.\(^\text{15}\) Its implementation of laws and regulations is weak, access to regulatory information, licenses, and finance is uneven. Regulations are frequently changing and the playing field is uneven and biased toward SOEs. Insufficient investor protection mechanisms and the lack of a stable and transparent regulatory environment undermine investors’ confidence. In addition, private sector managers in Mongolia spend three times more dealing with government regulations than other parts of East Asia.

33. Access to finance for SMEs remains a key constraint. SMEs account for about 98 percent of total registered business entities and employing about half of Mongolia’s total workforce. Access to finance and a poor business environment are key constraints to SMEs’ development. The main constraints for SME’s access to finance are high interest rates, short-term maturities and strict collateral requirements. As of October 2020, the average interest rate for SME loans was 16.5 percent and the average maturity was 18.9 months for individuals, and 12.3 percent and 36.1 months for businesses. In addition, Mongolia’s banking system continues to carry high risks, as determined by an IMF-mandated Asset Quality Review.\(^\text{16}\) These risks 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 (NBFI) 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.

\(^{15}\) Mongolia’s performance in Doing Business Report is highly uneven. While it is doing relatively well on getting credit (ranked #25), dealing with construction permits (#29), and protecting minority investors (#25), it is doing poorly on resolving insolvency (#150), getting electricity (#152), trading across borders (#143) and starting a business (#100).

\(^{16}\) 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.
34. **A well-functioning labor markets is key to economic transformation.** Mongolia’s labor market has been defined by imbalances across the economic cycle, across skill levels and types, seasons and across space, translating into job mismatches, high unemployment and falling labor force participation, especially for women. With the current economic downturn, these imbalances have become particularly pressing. The authorities have long aimed at improving the functioning of the labor market and the access to jobs through employment support policies such as public employment services and active labor market programs. However, these efforts have suffered from a number of design weaknesses, in particular a widespread focus on supply instead of demand. Skills building and upgrading through the life cycle remains highly fragmented institutionally, lacking strategic planning and connections to businesses.

35. **The WBG will continue to actively support improving the business environment, labor market conditions, and access to finance, especially for SMEs, with special attention to access for women.** A new Jobs Diagnostics will generate evidence to inform policies for creation of more and better jobs. IFC has provided equity and debt investments to two of the top four banks in Mongolia and has provided advisory services to financial sector regulations and partner banks. While IFC recently exited from its equity position in Khan Bank, it will continue to work with partner banks to provide dedicated credit lines for MSME financing along agriculture supply chains and issue green loans and green bonds. It will work to develop NBIFs including microfinance, leasing and insurance companies, to advance financial inclusion. In this regard, IFC has recently provided an innovative Tugrik denominated loan facility financing to Transcapital, one of the largest NBFI’s, which will benefit 15,000 micro, rural and women entrepreneurs. Through the Distressed Asset Recovery Program (DARP), IFC will work to improve the financial health of banks and NBIFs and support exit or restructuring of SMEs facing financial difficulties. Through an ongoing advisory project, IFC is working to improve Mongolia’s insolvency resolution framework to facilitate restructuring of the distressed businesses. Risk-Sharing facilities can also be used to enable commercial banks provide funding to SMEs and affordable housing projects. In addition, IFC advisory support will support partner banks’ corporate governance, risk management, sustainable energy financing, digital solutions and AML/CFT practices. It can support BoM to improve public credit registry across banking sector, promote Value Chain Finance market development to improve A2F for MSMEs. IFC also supports green bond market development and promote adoption/implementation of sustainable finance framework in NBFI sector and capital market. It may advise and support SOE reforms if there is government momentum. The ongoing Bank’s Export Development Project will continue to support Mongolian SMEs to strengthen their export capabilities and expand access to export markets through providing export finance products, capacity building and matching grants, especially for women-led businesses. The Bank’s potential new DPO may also support policy actions to improve the investment regulatory framework, investment promotion measures, and trade facilitation. The Bank and IFC can also work together to design a more efficient financing framework for SMEs to better utilize the government’s concessional funding and support the capital markets infrastructure. The ongoing Employment Support Project is supporting jobseekers and micro-entrepreneurs in Mongolia with improved access to labor market information, financing in the form of micro-loans and business skills development. In addition, MIGA will work together with the Bank and IFC to support and de-risk private sector solutions.

**Objective 2.2 Promoting sustainable mining and infrastructure investments**

36. **The mining sector will continue to play a key role in promoting economic development in Mongolia, but it has to be managed in a more sustainable and inclusive way.** Mongolia needs to attract and maintain quality FDI to develop world-class mining projects. The government’s capacity to manage mining assets, especially in joint ventures with international partners needs to be enhanced. Environmental sustainability including water and energy use, and inclusion through local supply chains
and benefits for local communities are critical to the future of the mining sector in Mongolia. The WBG has been engaged in the sector, particularly through the large IFC-MIGA investment in the OT mining project.\(^{17}\) Going forward, IFC is open to consider supplemental senior debt to OT II, and other later-stage mining projects. The MIGA guarantee will remain in place until 2027. IFC AS will work with OT to launch a local supplier development program in South Gobi and UB, focused on building business skills and facilitating access to finance for SMEs. It will also promote renewable energy solutions, specifically for the mining industry; improve information sharing and data flows among government agencies, between government and the public (especially mining communities), as well as the industry and communities. A new Bank TA, building on previous efforts\(^ {18}\), will aim to develop strategy options for mining sector development to inform future policy directions in the sector. Through the Disclosure to Development program, IFC will work to improve the community’s awareness through innovative tools and methodologies to enhance transparency in the infrastructure and natural resources sector. Finally, the WBG entities will also continue to coordinate dialogue with government on OT and continue to work with other investment partners, e.g., European Bank for Reconstruction and Development (EBRD).

37. **Improving the competitiveness of Mongolia’s economy will require increased investments in infrastructure to overcome the country’s geographical challenges.** 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. Mongolia lags behind other countries in global infrastructure rankings\(^ {19}\), with high costs of logistics and transportation.\(^ {20}\) In addition, the quality of infrastructure is often suboptimal and lags in repair and maintenance. On the policy side, fragmented infrastructure selection, planning and implementation processes, and an unconducive investment climate and regulatory framework have failed to attract private financing for infrastructure. As a result, many residents do not have access to markets, employment opportunities, basic services. Urban infrastructure in Ulaanbaatar and other urban centers cannot meet the 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. In addition, economic corridors with Russia and China have not met their potential.

38. **The WBG will support sustainable infrastructure development through a new lens of focusing on the value chains.** Given Mongolia’s spatial challenge and low population density, selective and targeted interventions based on value chains are vital to generate economic, social and environmental impacts. This approach is presented in the recently completed Infrastructure Sector Assessment (InfraSAP) study by the WBG. The study uses a value-chain based approach to select priority infrastructure

---

\(^{17}\) Despite controversies in public discussions, the project has brought important contributions for Mongolia: $1.6B in tax payments, $2.5B spending in local procurement and $7.9B spending in-country from 2010-18; 2,649 employees, 93% of which are Mongolian; engagement on participatory water management, local procurement, access to finance, renewable energy for mining & disclosure to development programs; industry-led Voluntary Code of Practice (agreed w/13 mining co’s including OT) on responsible water management; trained 1,000+ community, government and industry stakeholders on mining and groundwater management; communications strategy for responsible mining and water management, and in 2018, began building OT’s local supplier development program on capacity building and access to finance; and with OT and other mining companies financed feasibility study for shared RE solution in South Gobi.

\(^{18}\) The Bank has a track record of TA on improved regulatory performance (MSISTAP 2009-15) and financing sector megaprojects (MINIS 2011-19); engagement in governance (Extractive Industries Transparency Initiative (EITI) grants 2010-2018).

\(^{19}\) See for example the World Economic Forum’s Global Competitiveness Report 2019, which ranked Mongolia 101 out of 141 countries in infrastructure. Mongolia ranked 112 with regard to quality of roads, 112 with regard to road connectivity, and 117 with regard to efficiency of air transport.

\(^{20}\) For example, out of the 21 aimags in Mongolia, railway reaches only 7 and only 16 are connected to the capital city through paved roads.
investments, and identifies five strategic infrastructure interventions for the livestock value chain, urban mobility to support tourism and service sectors, energy and renewable energy for export, mineral value chains, and regional connectivity and trade. The InfraSAP also proposed actions to attract private financing for infrastructure, and overcome institutional fragmentation in the governance framework. Based on the study, Bank financing is envisioned to support improving transport connectivity and logistics for strategic value chains around livestock and other value chains in selected corridors. It will also support institutional capacity to improve infrastructure delivery. IFC will continue engaging with line ministries and agencies to identify assets to mobilize private capital and explore potential PPP solutions or privatizations in transport, power and water/wastewater utilities.

39. **Mongolia’s energy sector is also facing serious challenges in providing reliable and sustainable energy (electricity and heat) supply.** Mongolia has underinvested in the energy sector for several decades and there is a looming crisis due to insufficient capacity to meet growing power demand. To meet this growing demand, electricity and district heating networks will need additional generation capacity as well as network upgrades. In the meantime, 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 been exploited. This means Mongolia must plan for an energy transition.

40. **The WBG’s engagement in the energy sector will focus on energy efficiency and energy transition.** Ongoing energy projects aim to improve reliability of electricity distribution networks and increase renewable energy generation (ESP2). The UB heating sector improvement project under implementation will expand access to and enhance efficiency of the district heating network in the poorer parts of UB and reduce air pollution. Furthermore, the WBG’s analytical support on the Energy Sector Masterplan can lay the foundations for an energy transition, guide needed investments and improvements of the policy framework. Further investments could focus on system upgrades to increase the ability to absorb variable renewable energy in the grid and to export surplus generation. IFC will look for opportunities to support renewable energy investments and through advisory to support the implementation of renewable energy projects, and financial institution’s climate strategies. MIGA will also explore opportunities to strengthen foreign direct investment in the energy sector through its political risk guarantees. These activities are closely aligned with Mongolia’s National Determined Contributions agreed during the Paris Climate Conference.

41. **The Bank will also support digital connectivity and strengthen the foundation for digital economy.** Digital penetration has developed rapidly in Mongolia, and COVID-19 has accelerated the trend. The government has the ambitious goal of completing the e-Mongolia initiative in seven years, and recently launched 181 public services online on the national e-Mongolia platform. The ongoing SMART Government project, approved in 2015, aims to use ICT to improve accessibility, transparency, and efficiency of public service in Mongolia. It delivers core digital government foundations and public services, including public open data portal, national enterprise architecture, national disaster recovery center, e-Property registration system, and over 30 public services for citizens and businesses. Building on what has been achieved and the e-Mongolia initiative the authorities have launched, a potential further Digital Transformation project could help provide transformative digital public services to citizens and

---

21 Mongolia is ranked 152 in the Getting Electricity indicator of the 2020 Doing Business Report.

22 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.
businesses, build the foundation for Mongolia’s digital economy, and facilitate building a participatory digital society. All these objectives have become more relevant due to COVID-19.

**Objective 2.3. Increasing productivity in non-mining sectors and urban competitiveness**

42. The WBG will put an explicit focus on supporting the development of the non-mining sectors in Mongolia, particularly around sectors with high potential for job creation, including for women. The agricultural sector has the potential as a driver for economic diversification and as a key source of broad-based employment. It currently employs about a third of the population and represents 13 percent of GDP. The share of livestock in agriculture output is 90 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, recent WBG 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 remain. Tourism in particular is estimated to contribute around 11.8% of GDP and around 9 percent of employment (2018), with potential to rise further.

43. The WBG will support enhancing productivity and job creation in agriculture and tourism.

- Targeting the livestock sector, the ongoing Livestock Commercialization project, approved in FY20, will strengthen animal health systems and enhance livestock and crop productivity and commercialization. It will support framework conditions for greater private sector involvement by strengthening key institutions and promote product quality and food safety standards, and consequently enable enterprises including those led by women to enhance their productivity and business activities. If the project interventions prove to be effective, further financing could be considered to scale up or have similar interventions in other sectors. A further ASA on the transformation of Mongolia’s agri-food system will review its agricultural policies and public expenditures (especially subsidy and other support programs). The potential Bank DPO may also support policy actions to improve pastureland improvement and climate smart agriculture. IFC and MIGA 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 will continue to work with the Bank’s livestock commercialization project on upstream investments in the sector.

- In the tourism sector, building on IFC’s strong engagement through its earlier support in the premium (Shangri-La hotel) as well as midmarket (Ibis Styles) segments, IFC will look to develop quality tourism projects outside Ulaanbaatar, and build eco-tourism aiming to create a strong multiplier effect in jobs and incomes rural areas. IFC PPP Advisory can look into potential privatization of MIAT Mongolian Airlines, the national carrier, through PPP should there be preparedness at the government level. The Bank’s Inclusive Tourism Development ASA will specifically identify policy measures and investments to support the implementation of the State Policy for Tourism Development 2019-2026 and promote the growth of Mongolia’s tourism industry.

---


24 In addition, these sectoral interventions are complemented by ongoing efforts to improve the business environment and the ongoing Export Development Project supporting SMEs in the non-mining sector to strengthen their export capabilities and expand access to export markets.
44. **Urban centers are key to Mongolia’s growth and the WBG will support increasing urban competitiveness and sustainability.** The urban population of Mongolia increased from 57 percent in 2000 to 69 percent in 2018, with 46 percent of the population residing in Ulaanbaatar. Seventy-three percent of Mongolia’s GDP is attributed to three cities—Ulaanbaatar, Darkhan and Erdenet. Enhancing urban competitiveness while managing urban sprawl, improving environmental sustainability especially air quality, and inequitable access of urban infrastructure and services, are important challenges facing Mongolian cities. The Bank’s ongoing Mongolia Cities and Climate Change Study focuses on urban growth and climate change in Ulaanbaatar, Erdenet and Darkhan through scenario analysis and technical studies on SMEs in the three urban centers. Informed by the study, a potential Urban Competitiveness and Regeneration Project could support enhancing competitiveness of the leather and wool processing sectors in urban centers and regenerate degraded urban land and restore water quality. To address urban transport constraints, Bank financing could be mobilized to improve safety, resilience, and sustainability of selected major urban transport corridors in Ulaanbaatar. Such an engagement would be based on several urban transport sector ASAs, which were completed in past years. Housing and waste management may also be areas of engagement. IFC will look for investment opportunities in affordable and green housing, including in collaboration with ADB’s ger district redevelopment initiative; engaging with Ulaanbaatar City to help designing financing solutions at sub-national level; and developing risk sharing facilities with commercial banks to promote affordable housing and green finance. IFC will also provide advisory support to developing green building standards and energy efficiency projects for private investments. In addition, the Bank’s work on land administration and geo-spatial information management can also unlock opportunities in urban management, transport and other sectors.

**Focus Area 3: Expanding human capital and improving quality of life**

**Objective 3.1 Improving access to quality health and educational services (including COVID-19 health response)**

45. **Mongolia faces challenge of providing quality service delivery in the health and education sectors.** In the health sector, the quality of care and particularly the quality of primary care in rural areas are major constraints. Service delivery is characterized by large technical and allocative inefficiencies, and the system is not equipped to meet the growing burden of Non-Communicable Diseases, the leading cause of mortality and morbidity in Mongolia. A global study of health care access and quality in 195 countries had Mongolia ranked only 119th. Mongolia needs to transition to a high value delivery system, supported by efficient use of public expenditure. COVID-19 has further exposed weaknesses in public health systems, and highlighted the need to build a stronger disease control systems and strengthen public preparedness. In the education sector, while Mongolia invests considerably in the sector, the return of investment in terms of learning outcomes and preparedness for the labor market lags behind. Mongolia also trails behind its economic peers in early childhood literacy and numeracy. Gaps in abilities among young children and early graders within Mongolia are large, and tend to widen over time. Closing the quality gap will be critical, but is complicated by the absence of effective national learning assessments, low non-salary operational budgets and insufficient school-level autonomy, and a lack of

---

**References:**


26 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).

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 relevant skills for 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)\textsuperscript{28} and tertiary education.

46. **Ongoing WBG interventions will support the health and education sector.** To ramp up the public health response to COVID-19, the Bank rapidly mobilized two emergency response and health system preparedness operations in FY20, as part of COVID-19 Strategic Preparedness and Response Program under the WBG’s Fast Track COVID-19 Facility (FTCF). Both operations strengthen Mongolia’s capacity to prevent and respond to the COVID–19 outbreak, including through vaccine financing and strengthening national systems for public health preparedness. 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. In the education sector, the ongoing Education Quality Reform project aim to improve early grade schooling and learning outcomes, teacher performance, and access to learning and targeted skill development for marginalized groups of children and youth. Through a recent restructuring in June 2020, the project is also geared towards adapting to the COVID-19 reality, and focuses more on building e-learning platforms, online education content, teacher professional development, inclusive education, and enhancing school-based management and opportunities to reach remote populations. A 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.\textsuperscript{29} Should government move forward with additional reforms in the health and education sectors, the Bank will be ready to mobilize and engage quickly.\textsuperscript{30}

**Objective 3.2: Enhancing efficiency and sustainability of social protection systems**

47. **Progress is needed to build efficient and sustainable social protection systems.** Although Mongolia devotes more than 2% of GDP to social assistance, only a small portion is targeted at the poor and vulnerable, two groups most adversely affected by shocks and crises like COVID-19. Most expenditures are categorically targeted and not focused on the poorest, and when they do, they provide very little to help them to overcome poverty. While the government is able to identify the poor through a PMT-based (Proxy-Means Test) Integrated Household Database, this capacity remains underutilized. On pensions, the state subsidy to the Pension Insurance Scheme is projected to quickly escalate to unsustainable levels. During the COVID-19 crisis, temporary exemption of contributions to social insurance is justified to provide substantial economic relief, but at significant cost. The emergency Employment Support project provided temporary relief to eligible workers in response to the COVID-19 crisis through supporting their social insurance contributions. Parametric reforms are urgently needed to address escalating fiscal expenditures and leave room for adjustments by beneficiaries.

\textsuperscript{28} 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.) Importantly, the role of TVET and basic skills training is underemphasized in Mongolia, in favor of academic stream and disciplines. This leads to further gaps between skills and available jobs.

\textsuperscript{29} 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.

\textsuperscript{30} recent analytical work on the education sector plan supported by the Global Partnership for Education examined the challenges of weak learning outcomes, socio-economic and geographic disparities, inefficient allocations and relevant curriculum, and supported the government’s Education Strategy to improve the quality of education through the development of a system of open, distance, online and flexible learning pathways.
48. The World Bank will continue to support the Government in its efforts to strengthen social welfare programs, pensions and social insurance schemes. The Bank will support the government efforts of reforming its social welfare system building on a trusted partnership with main counterpart, the Ministry of Labor and Social Protection. Bank support will continue its efforts to reorient categorical social welfare programs to assist the poor and the vulnerable. This will include policy advice on draft legislation, support of measures to consolidate social assistance programs, strengthen the Social Registry and targeting system, and establish the foundation for adaptive programs which respond to shocks. Strengthening social protection will be one of the key pillars under the potential new DPO and social assistance will be an important part of it. The Bank will also support the government efforts to reform its pension insurance scheme and other social insurance legislation and programs, to improve the fiscal sustainability of the pension insurance scheme and improve the equity and efficiency of social insurance programs.

**Objective 3.3 Improving livelihood and protecting the environment & climate**

49. Finally, improving livelihoods particularly at the local level in rural areas and protecting the environment are important to improve quality of life for Mongolian people, especially the poor and vulnerable. Given the geographic challenges in Mongolia, it is difficult to deliver quality services at manageable cost in rural areas. Reducing their vulnerability to weather and climate shocks and expand their livelihood options are important. 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 make Mongolia’s socioeconomic development highly vulnerable to environmental pollution and a changing climate. Protecting the environment and addressing climate challenges are therefore essential to maintain Mongolia’s endowment of clean air and water, vast pasturland and unspoiled nature. It is directly linked to the wellbeing and livelihoods of Mongolians today and for future generation. Mongolia is a signatory to the Paris Agreement and committed to implementing its Nationally Determined Contributions (NDCs).

50. It aims to reduce its GHG emissions by 4 percent by 2030.

51. The WBG will have targeted interventions to improve livelihoods at the local level. The ongoing Third Sustainable Livelihoods project has been supporting the Local Development Fund (LDF) to improve last-mile service delivery, and improve livelihood options for local and rural communities. The program has had a long engagement and continues to evolve. With the Bank support, the LDF has become a flagship program known to local communities. The community engagement and social resilience aspects of local development planning and implementation, including involvement of and led by women, has become an important feature. The government has requested further programmatic support of the LDF with possible extension to provincial level and UB. Further bank engagement could be planned in response, potentially in the form of a P4R operation.

52. The WBG efforts to address environment and climate change challenges cuts across multiple sectors, and addresses both the mitigation and adaptation aspects of the climate agenda. It is central to the resilience agenda.

- The Bank’s interventions on climate change mitigation in Mongolia are directed towards (i) energy efficiency; (ii) diversifying the energy mix 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. The main ongoing operations in support of climate change mitigation are the Energy Sector Project, which deploys solar photovoltaic technology and
improves the efficiency of the distribution networks, the Ulaanbaatar Clean Air Project (UBCAP), which supports Mongolia’s mitigation efforts by replacing traditional heating coal stoves with more efficient options, and the Ulaanbaatar Heating Sector Improvement project which will also enhance the efficiency of heating and reduce emissions. Furthermore, several ASA aim to promote mitigation efforts through more efficient heating options, scaling-up renewable energy and improving public transport. In addition, IFC looks to invest in renewable energy and support green building solutions, including through investment and advisory support for commercial and green mortgages, while MIGA will explore opportunities for cross-border investment.

• The Bank’s intervention strategy for climate change adaptation will focus on: (i) urban resilience, and (ii) support the government to implement Mongolia’s NDCs through capacity building activities. Ongoing activities include the ASA on Mongolia’s Climate and City Resilience financed through trust funds from Global Facility for Disaster Reduction and Recovery (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 other sources of financing such as climate finance, private sector financing and co-financing with other development partners.

• In the water sector, the Bank also has built a solid foundation through the 2030 Water Resources Group, with a number of analytical work around water pollution management, urban water tariff reforms, river basin governance, wastewater recycling and reuse, water management in mining, and water valuation and incentives. Further engagements will be explored potentially around circular economy solutions, integrated landscape management, water and river basin management, and solid and plastic waste management.

Cross-cutting themes

Governance

53. Mongolia has made considerable progress in many areas of governance over the last decade, but several challenges remain to deepen and fully institutionalize governance improvements for the citizen’s benefit. On paper, a robust legal framework is governing the 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. These weaknesses have largely been driven by i) a tendency towards populist policy commitments during election season, 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.

54. 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 is 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. 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. ICT solutions may help to improve transparency and public service delivery. To unlock the technological potential, Mongolia needs to enhance its legal environment for e-Government, narrow the digital divide, develop online public applications and services for citizens.

55. **Governance as a cross-cutting theme will underpin the WBG engagements in all three CPF pillars.** Strengthening institutions for economic management, business environment, public service delivery, and citizen participation will be embedded in WBG interventions in each focus area. At the project level, political economy analysis will inform the project design and implementation arrangements. The approach will build on the WBG’s past experience working on governance issues in Mongolia. Some ongoing projects and ASAs already have explicit interventions to improve public sector governance including 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 a potential follow-up operation); c) support PFM (Strengthening Fiscal and Financial Stability project) and related innovations such as gender responsive budgeting, fiscal transparency and citizen budgeting (Strengthening Governance in Mongolia, supported by a EU trust fund); d) increase access for citizens to public decision-making processes and quality services through social accountability (MASAM project, co-financed by Switzerland). Recently completed anticorruption and civil service reform ASA have provided additional insights into some of the governance weaknesses. In addition, the Bank is ready to engage on civil service reform if the government is committed to reform efforts. The WBG is also providing advice and capacity building on Financial Investigations and Anti-Money-Laundering regulations through the Stolen Asset Recovery Initiative (StAR).

**Resilience**

56. **Resilience is another cross-cutting theme that will guide the WBG’s engagements to “build back better” from the COVID-19 impact and optimize the long-term and sustained impact of WBG interventions.** Whether the WBG engagement is in economic policy, productive sectors, human development, or environment and climate, resilience needs to be part of the design principle. Economic policy and institutions need to create fiscal space to respond to uncertainties and future crises. Engagements in the productive sectors will need to address future risks to assets, employees, and business operations. In infrastructure development, standards need to be enhanced to sustain future hazards, and digital connectivity needs to be optimized to ensure equitable access in the post COVID-19 world. The delivery of essential services, such as health, education and social protection, need to be reimagined in ways that protect against future shocks. The economic recovery needs to happen while efforts to address climate change challenges need to be sustained. And ultimately, the poor need to escape poverty in a sustained way with enhanced livelihood options to respond to future shocks.

57. **Gender equality is also an important aspect of a more resilient society.** The priorities areas for promoting gender equality in Mongolia include improving quality of primary education, enhancing women’s access to economic opportunities and growing women-led businesses, closing the gender gap in retirement ages, promoting women’s participation in local planning and public policy making, empowering women as agents for change, enhancing the national capacity to introduce gender-responsive budgeting, and supporting the priority needs of the National Committee on Gender Equality.

---

31 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.
in knowledge and capacity building. Many of the WBG lending and ASAs are advancing these objectives, e.g. enhancing women’s access to economic opportunities is supported by the Bank’s Employment Support project, Export Development project, Livestock Commercialization project, as well as IFC’s engagements with private sector.

3.4 Implementing the Country Partnership Framework

3.4.1 Financial Envelope and Instruments

58. **Mongolia will be an IBRD-only client for the first time during this CPF period.** The indicative IBRD financing envelope for Mongolia is US$400-500 million for the period FY21-FY25. 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. In addition, to assist Mongolia to respond to urgent COVID-19 related needs, in April 2020, the Board granted Mongolia temporary access to the IDA19 Crisis Response Window (CRW) in FY21, for the same Performance-Based Allocation (PBA) amount the country received in FY20, i.e. US$50.7 million. This special IDA allocation will be used for additional financing of the COVID-19 Emergency Response and Health System Preparedness Project, including support for vaccine financing.

59. **The WBG will explore the use of different lending instruments.** While investment project financing (IPF) has been and will continue to be the primary instrument, Mongolia used a Development Policy Operation (DPO) series in FY18 and two tranches were completed. A new DPO is envisioned, but its materialization will depend on a number of factors. The Bank and the Mongolian authorities have also discussed the use of the Program for Results (PforR) instrument, and a potential P4R in support of the next stage of the local development fund is an early idea to be explored further. The WBG will also examine the use of guarantees as opportunities arise.

60. **The Bank will actively seek co-financing opportunities with other partners to leverage the Bank’s limited resources.** The Bank has had co-financed investment activities with partners such Japan and Korea in the past. The recent Mongolia economic recovery program was a collaborative effort among IMF, ADB, Japan, China, and Korea, and the Bank. The Bank’s current portfolio has two co-financed projects with Switzerland and the Scaling-Up Renewable Energy Program. The Bank will continue to look for co-financing opportunities, particularly in sectors where financing needs are large, with multilateral and bilateral partners. Furthermore, different climate financing sources may further be explored as well as complementary grant funding to support ASA for climate-relevant activities.

61. **In addition, the Bank will continue to provide advisory services and analytics 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 such as the recently completed CEM and InfraSap assessment. (See Annex 5 for the current ASA portfolio.)

62. **IFC 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 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 MSMEs, support job creation, and foster policy reforms that would help Mongolia’s
diversified economic growth and regional integration. Under IFC’s 3.0 framework, IFC will work closely
with the Bank, other donors and institutions to help create and unlock markets in Mongolia. 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 from the
Government of Mongolia and allowing them to deploy resources in much needed social areas (e.g. health,
education, social protection). IFC will seek to leverage, coordinate with and build on financial and technical
assistance by donors and institutions that are actively engaged in various development areas in Mongolia.
Infrastructure sectors (power generation and distribution, transportation) may offer opportunities for
direct funding, PPPs and potential privatizations, while funding available under IFC’s Upstream and
Creating Market’s Advisory Window (CMAW) would be utilized for development of upstream market-
creating opportunities.

63. **Through IFC’s support to the OT copper and gold mine, Mongolia has become one of IFC’s largest exposures globally.** As of October 2020, IFC’s investment portfolio stood at $526 million on its own account and $840 million mobilized from other institutions. The OT project accounts for $400 million and $821 million, respectively; other sectors with substantial exposure include commercial banking and accommodation and tourism services. During the CPF period, IFC expects to continue supporting OT as an important contributor to Mongolia’s growth. Such support would continue building on advisory engagements with OT, including 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 financial support to OT will be predicated on the client’s demand, policy stability and the 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 to US$800 million on the high end (for IFC’s own account and mobilization), depending on the pace of economic reforms and investment attractiveness of Mongolia.

64. **IFC’s Advisory Services portfolio currently comprises four projects, which will continue implementation during the CPF period.** Ongoing IFC Advisory Services (worth US$5.1 million in funds managed by IFC, as of end-October 2020) supporting trade and export facilitation, investment policy and investment promotion in the agri sector, water management in mining, insolvency reform and value chain financing market development. Going forward, IFC will continue expanding its advisory program, with potential areas of engagement in green financing (including green bonds and green buildings) and integration of environmental, social and governance requirement for the financial sector, access to finance for SMEs, credit registry, and renewable energy. IFC will also continue working under direct advisory mandates with key clients, including advisory services with partner banks on corporate governance, risk management (including AML/CFT risks), sustainable energy financing and digital solutions for enhanced inclusion. Recently IFC has received requests from the government to support Doing Business reforms, continuation of Systemic Investor Response Mechanism (SiRM), FDI promotion and developing supply linkages of domestic SMEs with FDI companies.

65. **MIGA’s exposure in Mongolia, from its guarantee for the development of the OT mine, remains the largest in EAP (see Annex 6).** This currently stands at $858 million (FY20), making Mongolia one of the top 10 countries in MIGA’s portfolio, with 4 percent of total gross exposure. MIGA’s intervention
contributed to mobilizing foreign private financing in support of the strategic mining sector in Mongolia, and was part of MIGA’s strategic priority of supporting investments in IDA eligible countries. The guarantee is for a period of up to 12 years (2015 – 2027) against the risks of expropriation, transfer restriction and inconvertibility, war and civil disturbance, and breach of contract. Going forward, MIGA will explore support for cross-border investments in key sectors such as infrastructure and renewable energy, while ensuring close coordination with the Bank and IFC.

66. **The WBG entities are working together to mobilize private capital in Mongolia, especially with regards to infrastructure investments and mining.** In the mining sector, the WBG collaboration has been longstanding. While IFC provided one of its largest investments loan for the OT mine and MIGA supported a political risk guarantee to facilitate the commercial financing, the World Bank provided technical assistance for mining sector regulations and, more broadly, on fiscal and macroeconomic management. New WBG interventions will consider the potential for crowding in additional private resources. The planned Mongolia Transport Connectivity and Logistics improvement pipeline project based on the InfraSap study will provide opportunities for private sector solutions for critical infrastructure projects. Similarly, the planned Urban Competitiveness and Regeneration Project will also create conditions for private sector investments. In the livestock and tourism sectors, the Bank’s Livestock Commercialization project and analytical work are working together with IFC to identify potential investment opportunities.

### IV. MANAGING RISKS TO THE CPF PROGRAM

67. **The risks to the program are substantial overall.** Based on the Systematic Operations Risk-rating Tool (SORT), key risks include macroeconomic, political and governance as well as environmental and social risks.

<table>
<thead>
<tr>
<th>Risk Categories</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Political and governance</td>
<td>S</td>
</tr>
<tr>
<td>2. Macroeconomic</td>
<td>H</td>
</tr>
<tr>
<td>3. Sector strategies and policies</td>
<td>M</td>
</tr>
<tr>
<td>4. Technical design of project or program</td>
<td>M</td>
</tr>
<tr>
<td>5. Institutional capacity for implementation and sustainability</td>
<td>S</td>
</tr>
<tr>
<td>6. Fiduciary</td>
<td>S</td>
</tr>
<tr>
<td>7. Environment and social</td>
<td>S</td>
</tr>
<tr>
<td>8. Stakeholders</td>
<td>M</td>
</tr>
<tr>
<td><strong>Overall</strong></td>
<td>S</td>
</tr>
</tbody>
</table>

68. **Macroeconomic risks will continue to be high.** Given the volatility of Mongolia’s economy and COVID-19 impact, it is likely that the macroeconomic situation continues to be volatile during the CPF

---

32 At the time the guarantee was issued, Mongolia was an IDA-country.

period. Also, the country’s debt situation will have to be managed carefully. Supporting macroeconomic management is a key objective of the CPF. In order to mitigate macroeconomic risks, it will be critical for the Mongolian government to manage the COVID-19 response carefully, and stay the course of reform. In addition, honoring its commitments under major investment agreements will be important to promote economic stability and strengthen the investment climate.

69. **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 government 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. The 2021 presidential 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, adjust the country dialogue, and be wary of any political interference in project implementation.

70. **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 the past. One mitigation measure for this implementation gap is to strengthen independent oversight mechanisms (such as the Fiscal Council on fiscal policy) or to improve civil service. 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.

**Fiduciary risks continue to be substantial.** Overall FM performance of the country portfolio is deemed satisfactory. There have been no major issues of ineligible expenditures or INT investigations in recent years. However, continued efforts are required to further strengthen the financial management capacity in Mongolia. The Bank is in the process of approving the transfer of project designated accounts to the Treasury system. While facilitating the transition, the Bank will continuously support strengthening of the Treasury system and closely monitor the management and use of its funds and ensure that the necessary fiduciary controls remain in place. Furthermore, the Bank will continue working with the Mongolian National Audit Office in improving the efficiency and effectiveness of the process of selecting and contracting independent private audit firms to perform the annual financial audits of the Bank financed projects in Mongolia.

**Other substantial risks include environmental and social safeguards.** In the past, in the mining related and other infrastructure projects, there have been some complaints from affected communities about potential adverse social and economic impacts. 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 has shown that in particular comprehensive consultation with affected communities are key to mitigate environmental and social risks.