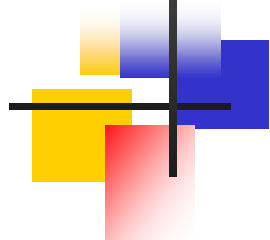




# World Bank Group -- Mongolia Country Assistance Strategy 2008-11

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Consultations  
October 2007



# Outline of Presentation

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- I. Overview and lessons learned
- II. Key Issues
- III. World Bank Group response and strategy
- IV. Next Steps



# I. Mongolia Country Assistance Strategy (CAS) overview

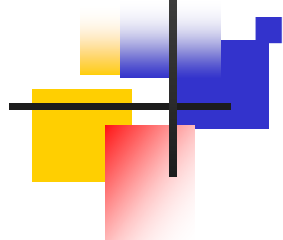
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- Target delivery date: January 2008
- Build on government strategies in place
  - NDS (as appropriate), SEGs
- Learn from previous CAS



## 2004 CAS – What Worked Well

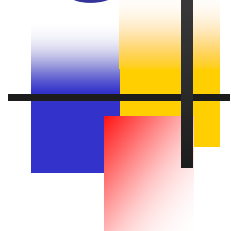
- Strengthening public expenditure management
- Addressing rural needs and vulnerabilities
- Informing policy dialogue with analytical and advisory support
- Stepping up policy coordination working with donors and government



## 2004 CAS – Lessons learned

Be clear and realistic on what the Bank can achieve by 2012.

- Need for flexibility
- Greater understanding of political economy
- Leverage WBG knowledge and operational assets.
- Strengthen the Bank's Mongolia Country Office capacity

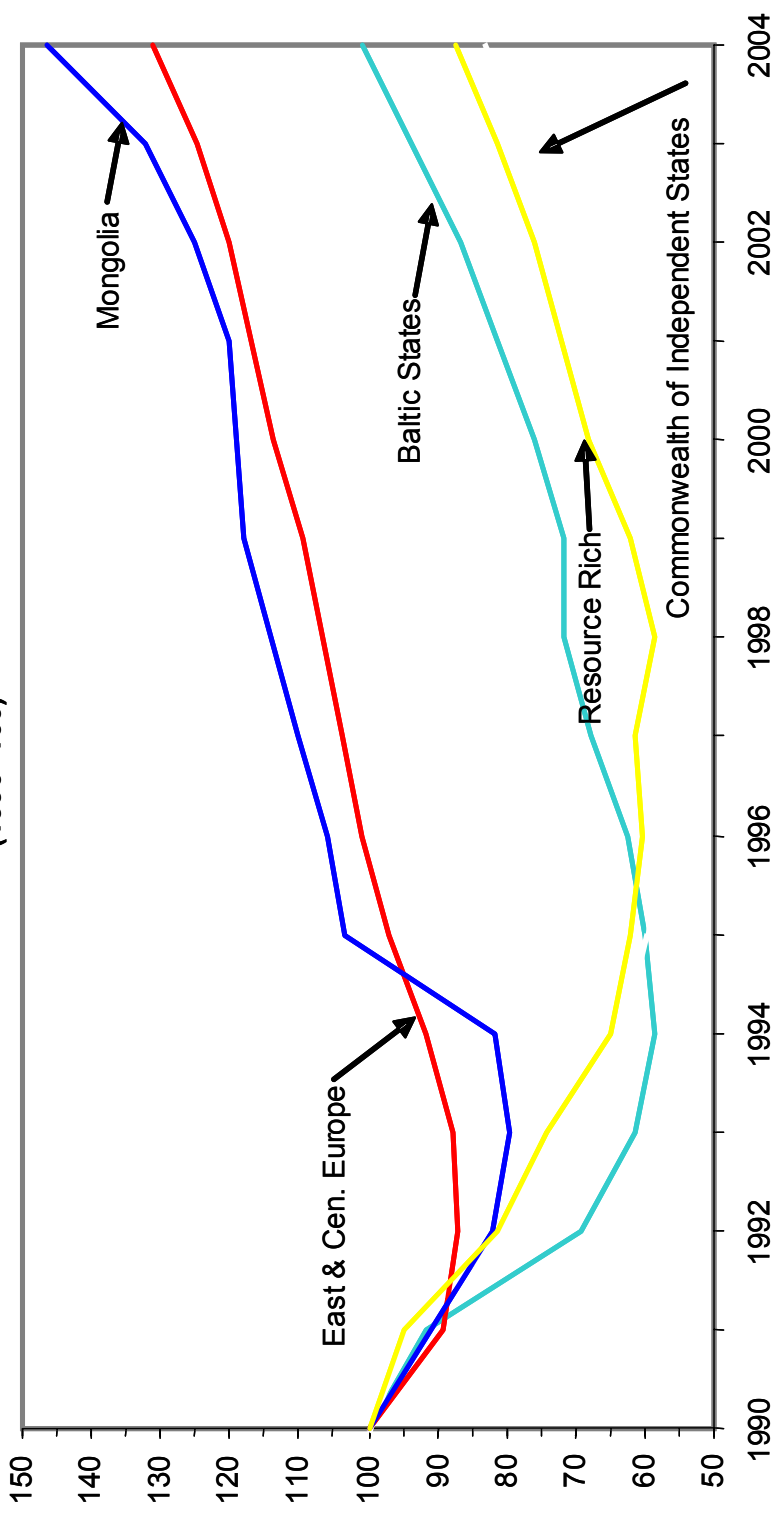


## II. Review of Mongolia's development context

Key Issues

# Good progress in navigating economic and political transition

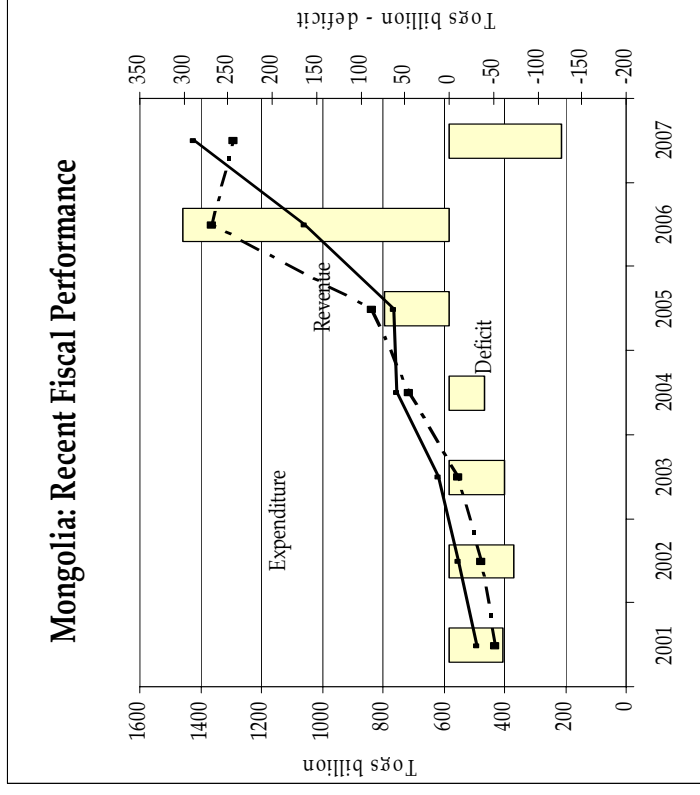
**Figure 1.1: Real GDP--Mongolia & Other Transition Economies, 1990-2004**  
(1990=100)



Note: Based on constant 2000 U.S. dollars.  
Source: WDI Database, World Bank.

# With strong macroeconomic performance in recent years

- A fourth straight year of strong growth in 2006, inflation in check, trade balance in surplus
- An unprecedented fiscal surplus of 9 percent of GDP in 2006, the second consecutive year of budget surplus
- Public expenditures, while constant as a share of GDP, rose 72% from 2003 to 2006
- Sustained capital inflows, including private direct investment, especially in mining and construction activities
- Net international reserves have increased to four months of imports



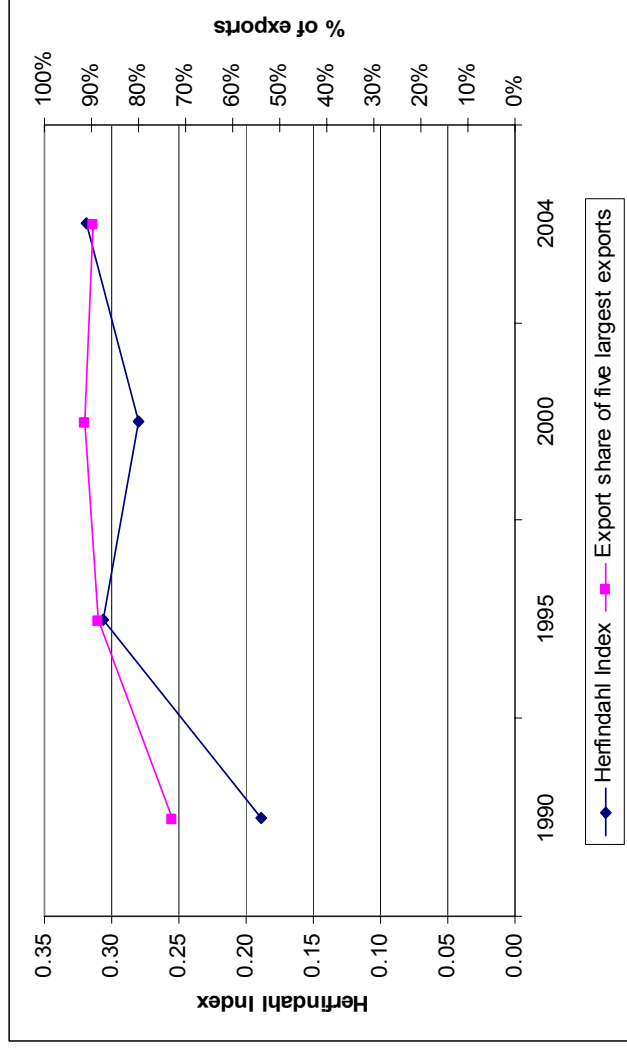


# ...driven by favorable external conditions, expanding services

- High global mineral prices have fueled exports, government revenues, FDI
- Good weather has led to rebound of livestock herds to levels prior to 1999-2002 dzuds
- Services sector has been the most consistent performer over the past five years
  - avg 8% annual growth 2001-04, 9% in 2005
  - driven especially by growth in trade, transport, communications and financial services

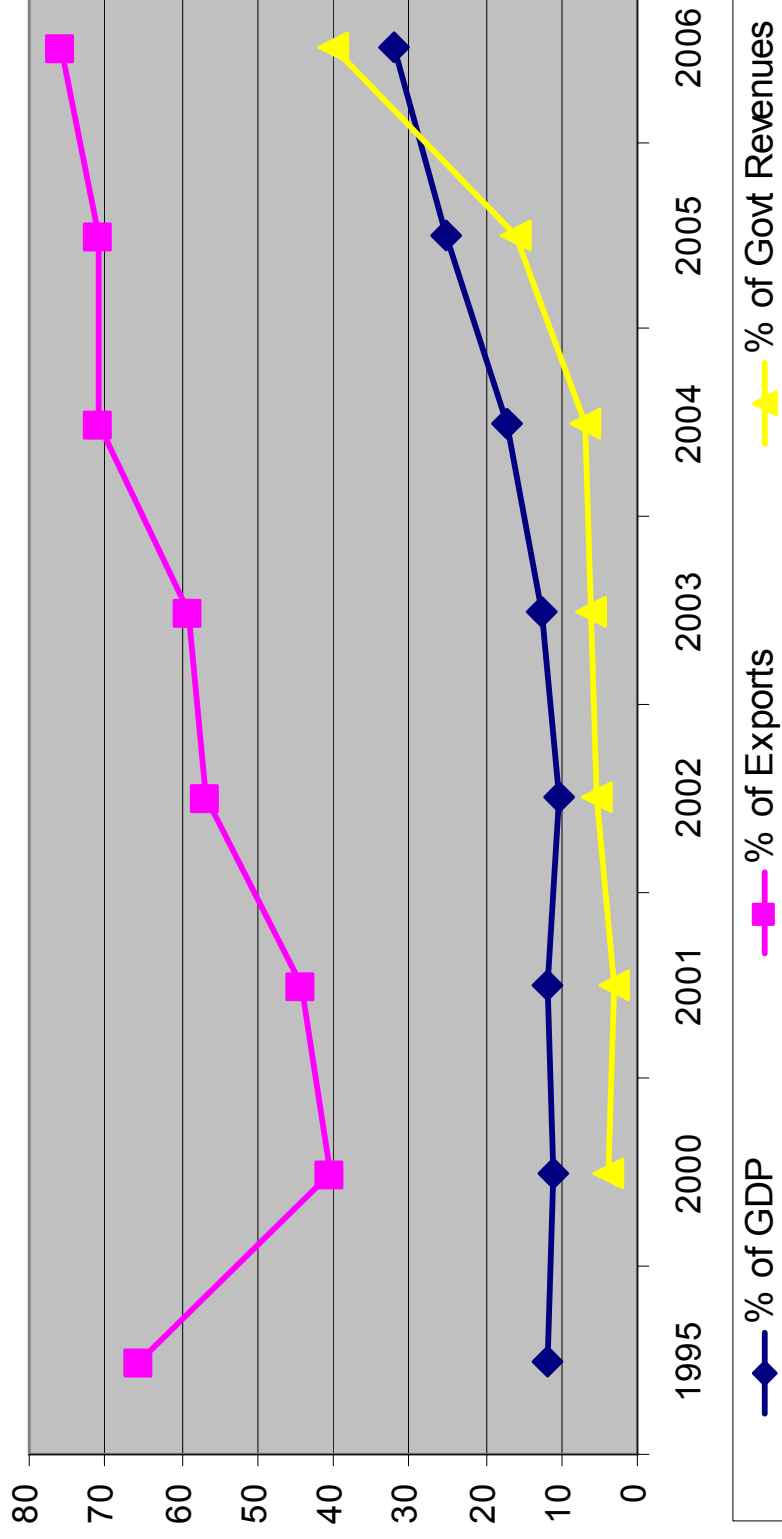
# Growing dependence on primary goods in past few years

- Two economic activities - livestock herding and mining - represented more than 40 percent of real GDP in 2005
- Three commodities – copper, gold and cashmere – accounted for 67 percent of Mongolia’s exports in 2005
- The vast majority of manufactured exports were textiles and apparel



# Mining sector brings major opportunities

## Mining in the Economy





# ...and challenges

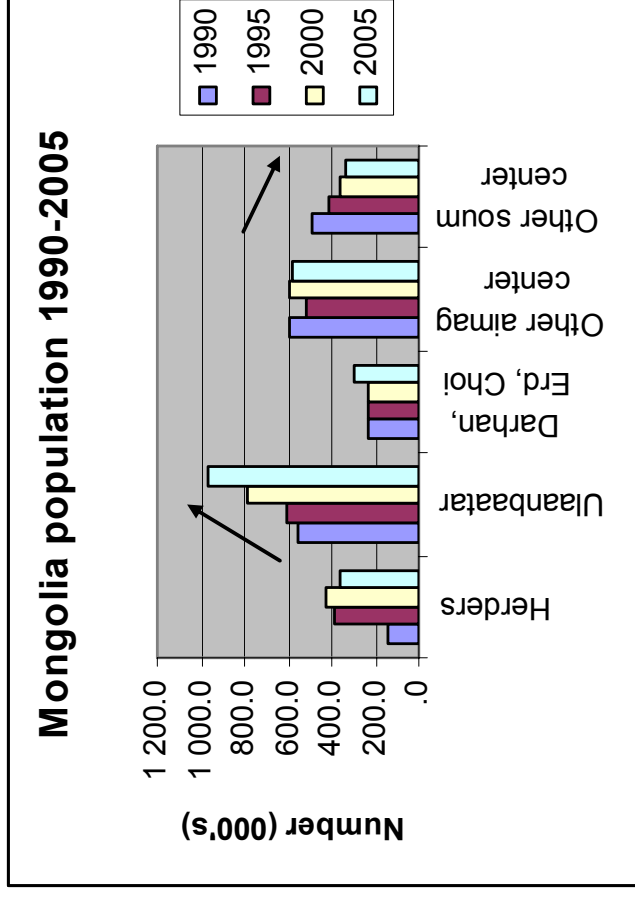
- Macroeconomic booms and busts caused by cyclical commodity prices
  - Uneven fiscal revenues, budget deficits and the debt trap
  - Foreign exchange fluctuations
    - Dutch Disease
- Enclave development and uneven distribution of wealth
- Negative governance outcomes
- Rent seeking behavior (corruption)
- Environmental and social impacts



# Signs of trouble ahead?

- Increased social welfare transfers (consumption)
- New and possibly unsustainable recurrent commitments
- Expenditures on uneconomic infrastructure
- Growing concern about official corruption
- Reductions in education spending (as a % of GDP)
- Increased government intervention in the sector (new state equity arrangements)

# Population and economic growth are concentrating in Ulaanbaatar



- Rural-urban migration likely to continue
  - Ulaanbaatar's "primate city" role -- primary destination for migrants countrywide
  - Rural population and economic growth stagnant except strategic locations



# Progress in maintaining high human development levels

## Millennium Development Goals

- On-track: school enrollment, gender equality in education, child and maternal mortality
- Possible/off-track: poverty, reducing spread of HIV/AIDs and TB

# Poverty is declining, but 30% remain poor and wide disparities persist

Table 1: Poverty rate (headcount)

	2002/2003	2006
<b>Total average</b>	<b>36.1</b>	<b>32.1</b>
Urban	30.3	27.9
Rural	43.4	37
<b>Location</b>		
Ulaanbaatar	27.3	20.4
Aimags centers	33.9	36.1
Soum centers	44.5	37.3
Countryside	42.7	36.8

Source: National Statistical Office

- Rural-urban disparities
- Intra-rural and intra-urban disparities
  - Income/consumption
  - Education and health indicators
  - Access to infrastructure services-- water, heat, sanitation, transport, ICT



# Major groups are poor or vulnerable to falling into poverty

## Herders

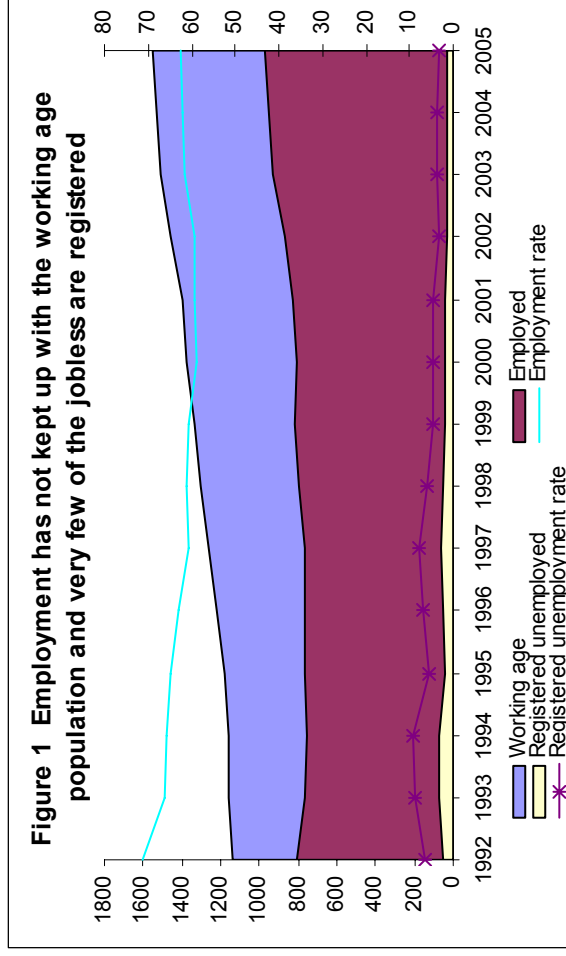
- 40% of population remain dependent on herding for employment and livelihoods
- High vulnerability to climatic shocks
- 25% of herder households chronically poor with small herds and large families

## ■ Ger district residents

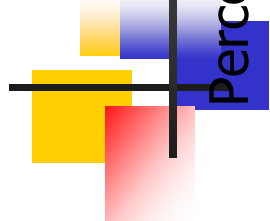
- 80 percent of migrants settle in ger areas
- Disproportionate share of Ulaanbaatar poor
- Less access to services – central heat, water, sanitation
- Over-crowded schools
- Higher probability of social exclusion

(Source: 2004 UNDP report on Urban Poverty and Migration)

# Limited job creation: a labor market in transition



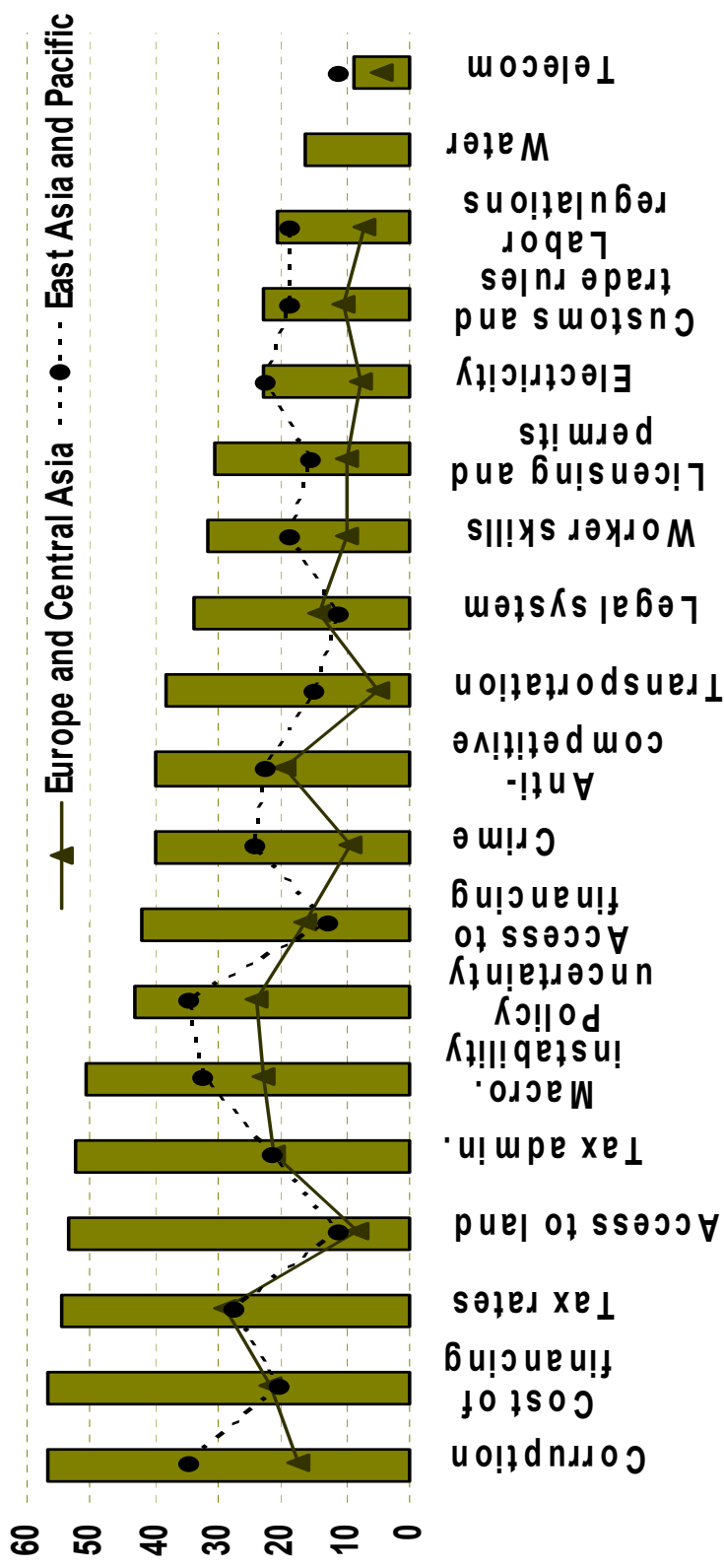
- The Mongolian economy's demand for skills is changing, but not met by supply
  - Unused human capital: inability of find a job
  - Job informality: Getting stuck in 'bad' jobs
  - Skills mismatch: Bringing skills that are inadequate to market demands



# A Challenging Investment Climate

## Perceptions of Mongolian Firms Regarding the Main Investment Climate Impediments

(Percentage of firms that perceives that particular constraint as a major obstacle)






### III. Bank group response and proposed CAS 2008-11 priorities

- Platform 1: Enhance the development impact of the mining economy
- Platform 2: Improve rural livelihoods and environment
- Platform 3: Make Ulaanbaatar a more livable city



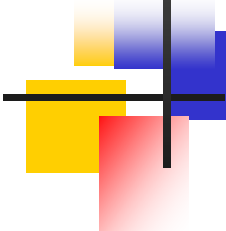
# Platform 1: Enhance development impact of mining economy

- Improved transparency and accountability in the public financial management
- Stable and competitive investment climate and regulatory environment
- Improved management and mitigation of mining sector environmental/social risks



## Platform 1.1 Improved transparency accountability in public financial mgmt

- More public disclosure of mining, budget, legal info
  - Improved public access to mining and fiscal information
  - WBG: GAP, ECTAC, EITI (ongoing); Mining TA, Legal/judicial
- Enhanced capacity to manage mining and other revenues
  - Integrated budget (incl. Dev Fund) and public investment program based on fiscal and cost-benefit analysis
  - Strengthened statistical monitoring system (STATCAP, Pov assess)
- Improved mgmt, financing of infrastructure, social services
  - Pricing of infrastructure services better aligned with costs
  - Improved sustainability, impact of social protection and services
  - Better planning of mine-related infrastructure
  - WBG: Energy, TM (ongoing) S. Gobi infra strategy



## Platform 1.2 Stable, internationally competitive investment climate

- **Stable, competitive, transparent legal, regulatory, fiscal regime for mining sector**
  - Improved mining sector regulatory framework
  - Increased GOM capacity to implement and enforce Enhanced regulations and enforcement
  - WBG: GAP; Mining TA, Legal/judicial
- **Better enabling environment for SME development**
  - Improved regulatory environment for SMEs (IFC SME toolkit)
  - Improved access to finance (IFC transactions, FSAP, SLP)



## Platform 1.3 Improved management of mining sector environmental/social risks

- Improved capacity to manage environmental and social impacts of mining
  - Strengthened analysis of and planning for social and environmental impacts
  - Improved public access to EIAs and social impact assessments
  - WBG: S. Gobi PPIAF, NEMO, Mining TA, Legal/judicial



## Platform 2: Improve rural livelihoods and environment

- Enhance quality and efficiency of rural social services
- Strengthen rural economies and incomes
- Reduce vulnerability through improved use and management of natural resources

# Platform 2.1 Enhance quality and efficiency of rural social and basic services

Expected CAS Outcomes and Results indicators	Bank Group Program (and partners)
<p><b>Improved access and reliability of energy supply.</b></p> <ul style="list-style-type: none"> <li>▪ % of herder population with access to reliable energy</li> <li>▪ # of off-grid soum centers with improved energy supply</li> </ul>	<p><b>SPN: REAP Partners</b></p>
<p><b>Enhance local participation in resource management for social service provision</b></p> <ul style="list-style-type: none"> <li>▪ % of citizens who agree that public investments are aligned with their priorities.</li> </ul>	<p><b>SPN: SLPII</b></p> <p><b>Partners: EU, Japan</b></p>
<p><b>Increased discretionary funds available at sum level for investments in social services.</b></p> <ul style="list-style-type: none"> <li>▪ Successfully piloted approaches for fiscal budget management through local government</li> </ul>	<p><b>SPN: SLPII</b></p> <p><b>Partners: EU, Japan</b></p>
<p><b>Increased access and quality of basic education (primary and lower secondary).</b></p> <ul style="list-style-type: none"> <li>▪ % improvement/rehabilitation of school infrastructure</li> <li>▪ % improvement in literacy skills</li> </ul>	<p><b>SPN: SLPII, READ</b></p> <p><b>Partners: EU, Japan</b></p>

# Platform 2.2 Strengthen rural economies and incomes

Expected CAS Outcomes and Results indicators	Bank Group Program (and partners)
<p><b>Improved access to rural financial services (micro/SME finance, insurance, mobile banks).</b></p> <ul style="list-style-type: none"> <li>▪ % of rural population with access to financial services</li> <li>▪ % of herders in target aimags are IBLI policy holders</li> </ul>	<p><b>SPN:</b> IBLIP, SLPII, FCDP, PSDCII  <b>LEN:</b> IBLIP2?  <b>Partners:</b> EU, Japan, ADB</p>
<p><b>Improved policy, regulatory, and institutional environment for expansion of ICT services.</b></p> <ul style="list-style-type: none"> <li>▪ Continued implementation of the universal access strategy using OBA approach.</li> <li>▪ Increased number of e-Government services</li> <li>▪ 100% of soum centers with private mobile service</li> </ul>	<p><b>SPN:</b> ICIDP  <b>Partners:</b> EBRD, Japan, Korea, India, USAID</p>

# Platform 2.3 Reduce vulnerability through improved management of natural resources

Expected CAS Outcomes and Results indicators	Bank Group Program (and partners)
<p><b>Improved pastoral risk management strategies.</b></p> <ul style="list-style-type: none"> <li>▪ % of herders and soum governments implementing pasture land management and risk response plans</li> </ul>	<p><b>SPN:</b> SLPII, NEMOII  <b>LEN:</b> Forest  <b>Partners:</b> EU, Japan, FAO, GTZ</p>
<p><b>Reduce deforestation and improve natural resource management.</b></p> <ul style="list-style-type: none"> <li>▪ Increase in government enacting and enforcing relevant laws and regulations.</li> <li>▪ Forest agency established, functioning</li> </ul>	<p><b>SPN:</b> SLPII, NEMOII  <b>LEN:</b> Forest, Land Administration  <b>Partners:</b> GTZ, FAO, EU, Japan</p>
<p><b>Improved management of protected area system.</b></p> <ul style="list-style-type: none"> <li>▪ Tracking tool score increases by X%</li> </ul>	<p><b>SPN:</b> NEMOII  <b>LEN:</b> GEF  <b>Partner:</b> WWF, TNC, WCS</p>



## Platform 3: Make Ulaanbaatar a more livable city

- Enhance municipal management capacity
- Improve urban services affecting livability, with emphasis on ger areas

# Platform 3.1 Enhance municipal management capacity

Expected CAS Outcomes and Results indicators	Bank Group Program (and partners)
<p><b>Land use planning and zoning policies (in UB Ger Area Development Strategy) adopted and implementation initiated</b></p> <ul style="list-style-type: none"> <li>▪ Sustainable spatial planning initiated</li> <li>▪ Zoning systems improved</li> <li>▪ Land use regulations enhanced and enforced</li> <li>▪ Land sales and lease markets developed</li> <li>▪ Building codes established</li> </ul> <p><b>City administrative performance improved</b></p> <ul style="list-style-type: none"> <li>▪ Revenue base improved</li> <li>▪ Increased satisfaction with business climate expressed by firms of different types and sizes (including informal sector firms).</li> <li>▪ Staff capacity in the city administration for policy analysis, budget management and cost benefit analysis is enhanced</li> <li>▪ MUB’s role, responsibilities, and accountability for delivery of services, v/s the national government is clear.</li> </ul>	<p><b>AAA: UB Ger Areas Development Strategy (supported by Housing and Land Use and Management AAA)</b></p> <p><b>AAA: IDF Public Expenditure &amp; HRM; Municipal Finance ESW; Municipal Public Administration Capacity Building</b></p>

# Platform 3.2 Improve urban services affecting livability, with emphasis on ger areas

Expected CAS Outcomes and Results indicators	Bank Group Program (and partners)
<p><b>Air quality analysis, standards and monitoring improved</b></p> <ul style="list-style-type: none"> <li>▪ Indicators-based monitoring of ambient air quality established.</li> <li>▪ Pollution standards strengthened and enforcement mechanisms enhanced.</li> <li>▪ Air quality analysis and its linkages to public health strengthened.</li> </ul> <p><b>Pricing and subsidy reforms implemented:</b></p> <ul style="list-style-type: none"> <li>▪ Appropriate subsidies for clean coal for ger areas established</li> <li>▪ Water supply tariffs adjusted for higher cost recovery and regressive subsidies rectified</li> <li>▪ Electricity tariffs adjusted for higher cost recovery, esp residential tariffs</li> <li>▪ Tariffs for urban transport make public/private bus operation financially viable</li> </ul> <p><b>Independent utility regulatory agencies pricing decisions,</b></p> <ul style="list-style-type: none"> <li>▪ regulatory framework established to implement Output-Based-Aid approaches for PSP with clear rules and regulations</li> </ul> <p><b>Investment decisions based-on cost-benefit analyses and participatory planning</b></p>	<p><b>LEN:</b> UB Clean Air Project (supported by air quality monitoring TA and equipment provision by Japan and France); Adaptable Programmatic Credit – (I, II?)</p> <p><b>SPN:</b> USIP2, Netherlands TF (NEMO-II)</p> <p><b>AAA:</b>ESMAP Urban Heating Tariff Study, (supported by UB urban transport master plan by Japan); PPIAF/WB: Options for PSP in water supply &amp; sanitation in UB Ger areas; Ger area environment and sanitation study</p>

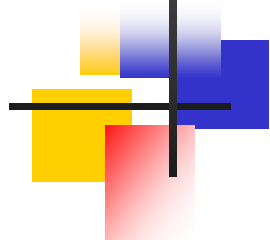


# World Bank – Mongolia portfolio

## **IDA**

- 12 ongoing IDA credit/grants for commitment of \$162.5 million
    - 58% in infrastructure sector
    - 13% in rural development and poverty reduction
    - 12% in public sector and legal reform
    - 11% in financial and private sector development.
  - Pipeline projects:
    - FY08-09: Mining TA (IDA \$10 M), UB Clean Air (IDA \$ 15 M); Forestry (IDA \$5 M), Enhanced Justice Sector Services Project (IDA \$6 M)
  - Portfolio of 12 GEF, IDF, JSDF and PHRD grants (about US\$ 9.5M)
  - All ongoing projects rated satisfactory
- IFC





# Questions

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- For each platform: Are the proposed CAS results in line with national strategies and address key issues?
- WBG program:
  - How well do the proposed interventions match Mongolia's needs?
  - Do the initiatives build/complement/support other donor programs?



# Next steps

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- Revise draft CAS and results
- Share with counterparts
- Board discussion in January, 2008

Thank you!

