



RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF
STRENGTHENING GOVERNANCE IN MONGOLIA
APPROVED ON APRIL 26, 2019
TO
MONGOLIA
GOVERNANCE
EAST ASIA AND PACIFIC

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ABBREVIATIONS AND ACRONYMS

CD	Country Director
FSL	Fiscal Stability Law
GAP	Glass Account Portal
GoM	Government of Mongolia
GFMIS	Government Financial Management Information System
IDA	International Development Association
IFR	Interim Financial Report
IPS	Integrated Payroll System
IPSAS	International Public Sector Accounting Standards
MoF	Ministry of Finance
OBI	Open Budget Index
PDO	Project Development Objective
PEFA	Public Expenditure and Financial Accountability
PIM	Public Investment Management
PFM	Public Financial Management
PIU	Project Implementation Unit
PPL	Public Procurement Law
PSC	Project Steering Committee
SGM	Strengthening Governance in Mongolia
TF	Trust Fund



BASIC DATA

Product Information

Project ID P168248	Financing Instrument Investment Project Financing
Environmental and Social Risk Classification (ESRC) Low	
Approval Date 26-Apr-2019	Current Closing Date 31-Dec-2021

Organizations

Borrower Mongolia	Responsible Agency Ministry of Finance of Mongolia
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Financing (in USD Million)

SUMMARY

Total Project Cost	0
Total Financing	0
Financing Gap	0

DETAILS

Project Development Objective (PDO)

Original PDO

The Project Development Objective is to support the Government's efforts to improve fiscal discipline, public financial management (PFM), and transparency and accountability processes for strengthened governance of public resource management in Mongolia.



Summary Status of Financing (US\$, Millions)

TF	Approval	Signing	Effectiveness	Closing	Net		
					Commitment	Disbursed	Undisbursed
TF-B0063	26-Apr-2019	30-Apr-2019	30-Apr-2019	31-Dec-2021	2.33	1.01	1.32

Policy Waiver(s)

Does this restructuring trigger the need for any policy waiver(s)?

No

I. PROJECT STATUS AND RATIONALE FOR RESTRUCTURING

A. Summary of Proposed Changes

- Given the borrower’s strong commitment to the Strengthening Governance in Mongolia (SGM) Project and the importance of this project to the country’s fiscal and financial stability, particularly during this time of macroeconomic and fiscal challenges during the COVID-19 global pandemic, the Government of Mongolia (GoM) has requested a restructuring of the Project in order to allow additional time to carry out the pending activities and to grant additional funding that are required to be able to fully complete and institutionalize the many structural reforms already commenced and progressing well. The Minister of Finance transmitted the restructuring request letter to the World Bank on December 22, 2021. The proposed changes to the Project are consistent with the findings and responsive to the recommendations of the supervision mission undertaken by the World Bank and the GoM in July 2021.
- This restructuring paper seeks approval from the Country Director (CD) for the following proposed changes: (i) an extension of the project closing date by 14 months from December 31, 2021 to February 28, 2023; (ii) an increase of the financing amount available to the project by a total of USD 0.5 million to cover a financing gap for the planned activities and accordingly, to fully achieve the project’s objectives and results and effectively utilize the remaining funds; and (iii) to revise the Results Framework (RF) to ensure full alignment between the performance indicators and the current project focus. The proposed changes do not affect the Project Development Objective (PDO) and the safeguard category for the Project. Therefore, a level two restructuring is recommended. This is the first extension of the grant’s closing date.
- The proposed fourteen-month extension will allow additional time to complete the remaining planned activities under the grant to be able to fully meet its development objectives. Also, the additional funding requested will help bridge the financing gap identified for implementing the envisioned priority activities on the Public Financial Management Strategy and the Action Plan. The additional financing will be provided from the same source EU TF financing. The possibility of extension and the additional financing was discussed and agreed with both the donor (European Commission) and the Recipient (Ministry of Finance).

B. Project Status and Rationale for Restructuring



4. The Grant Agreement became effective on April 30, 2019 following its signing between the Bank and Ministry of Finance (MoF) on April 30, 2019 and subsequently amended on February 9, 2021 to process a top-up contribution from the Donor. The grant-funded project provides targeted support to the MoF to advance critical structural and institutional reforms to ensure fiscal stability in Mongolia. The project objectives are highly relevant and aligned with the main Government policies and regulations such as the Integrated Budget Law, Government Action Plan (2020 – 2024), and the Public Financial Management (PFM) Action Plan (2018 – 2022). As of November 30, 2021, US\$0.82 (34%) of the total grant was disbursed and further US\$0.41 million was committed. Additional commitment of US\$0.45 million is expected by December 31, 2021.
5. The project gained further relevance in the context of COVID-19 and it has been proven to be an effective facility for the government to have a more solid footing to act swiftly to confront the economic and fiscal challenges of the pandemic. Since the COVID-19 case counts have remained high for Mongolia, the cost of the pandemic response actions placed a heavy strain on the public sector resources, the government has been required to rely on international expertise and resources, in particular those supported by this trust-funded project.
6. The official project restructuring request was issued by the MoF and received by the Bank on December 22, 2021, In the letter the MoF requests the Bank to allow additional time for the Project implementation until February 28, 2023, to grant additional funding to cover a financing gap for the project, as well as associated revisions to the project's Result Framework; specifically, one of the intermediate result indicators (IRI)s related to Component 1.2. A summary on the project implementation status and the need for further project support during the proposed extension by components has been included below:



- Component 1: Good progress has been documented under the component including some important developments such as: i) Mongolia participated in the Organization for Economic Co-operation and Development and the Intergovernmental Forum and signed the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS; ii) The draft law on ratification of the OECD's Multilateral Convention on Mutual Administrative Assistance for Tax Matters and the related documents were developed and approved on January 3, 2020; iii) in order to introduce and implement international best practices for the exchange of information on request and on a voluntary basis for tax purposes, the "Procedure for exchange of information on request and on a voluntary basis with a foreign authority for tax purposes" was approved on September 10, 2020. Areas needing further support include further technical assistance i) on the continued implementation of international taxation issues, including BEPS Actions, and tax treaty issues; ii) on the Competent authority agreement under the Convention on Mutual Administrative Assistance in Tax Matters, implementation of automatic exchange of information; and iii) continued necessary support on the BEPS, OECD meetings, and conferences overseas.
- Component 2: One of the key achievements of the Project was completion of the Public Expenditure Financial Accountability (PEFA) assessment released by the MoF on October 8, 2021. The PEFA scores revealed steady progress in many of the areas with greatest gains in the areas of budget credibility and predictability and control of budget execution. Comprehensiveness and transparency, policy-based budgeting, accounting and reporting as well as external scrutiny and audit remained relatively consistent over time. Further, significant reduction in the incidence of extrabudgetary operations had been achieved during the last six years. The report also highlighted some areas of remaining weaknesses, particularly those related to the budget documentation, information regarding service delivery and application of accounting standards, among others.



- i. Sub-component 2.1: The detailed Action Plan of the Public Financial Management (PFM) reform was developed and approved by the State Secretary of the MoF and the progress is being monitored through MoF's internal monitoring program "Leader Monitoring" and the latest available implementation status indicated as "Certain results have been achieved", at the rate of 70%. Further project support is needed and the focus during the extension period would be to fully implement the planned priority activities on the PFM action plan particularly in the areas of budget planning and execution reforms and to revise and update the PFM Action Plan based on the findings of the recently conducted PEFA assessment.
 - ii. Sub-component 2.2: A good progress has been recorded in introducing the Gender Responsive Budgeting (GRB) including i) An action plan for the introduction of the GRB in Mongolia has been developed and sub-working groups (GRB teams) have been established in the pilot ministries (Ministry of Education and Science and Ministry of Social Protection) and launched GRB activities (capacity building and gender analysis of selected programs); ii) developed GRB Model for Mongolia with steps and GRB documentation that is in the piloting phase and GRB recognized in the MTFs; iii) Identified gaps in gender policy planning and budgeting and initiated activities to address the gap, including technical assistance to NSO and NCGE; and iv) enhanced the technical capacity of the implementing agency by procuring IT goods for remote use. With regard to areas needing further support, the focus during the proposed extension will be on scaling up Mongolian GRB model, enhancing through legal commitment/amendments to the IBL and/or bylaws; establishing internal and external auditing, monitoring and evaluation system and needed capacity building activities.
 - iii. Sub-component 2.3: Substantial improvements are shown in the component including i) the annual Citizen's Budget booklets of both proposed and enacted budgets of 2018-2021 have been developed and disclosed to the public in both hard copy and electronic format under the framework of improving the budget transparency; ii) live Citizens' Budget website was developed with the support of the project and partially launched in February 2021 to enable citizens to participate more actively in the budget policy and planning stage; iii) the budget execution data by economic, functional, administrative and programmatic classifications for the fiscal years of 2010-2019 was prepared according to the BOOST template provided by the World Bank, and the BOOST readiness assessment of fiscal expenditure data for the last ten years was conducted; iv) under the exercise of revamping the Glass account portal, web services such as "Revenue Transactions", "Expenditure Transactions" and "Budget Execution" from E-Huulga were received and tested to improve the quality and the comprehensiveness of the data as well as to automate and simplify the manual entry of information into the system; v) draft amendments to the Glass Account Law have also been advancing in preparation based on an impact evaluation conducted of the proposed amendment; and vi) in cooperation with the system developer FreeBalance LLC, the customization and configuration of the GFMIS (FBv7) was completed to activate commitment control within the commitment and obligation module. Within this context, areas identified for further support during the proposed extension period include finalizing and operationalizing the above-mentioned activities such as interactive Citizens' Budget website, BOOST platform, Glass Account Portal and integrated Treasury portal system along with the amended Glass Account Law to be approved by the Parliament.
7. Regarding the fiduciary aspects of the Project, the implementation missions confirmed that there is no outstanding audit report for the Project, and the audit opinion on the Project's FY20 financial statements was unqualified. The project Interim Financial Reports (IFRs) are up to date and have been of satisfactory quality. Along the same line, the project procurement performance is in compliance with the Bank requirements.



8. The overall safeguards rating and the environmental assessment rating of the project are both Satisfactory. The project Stakeholder Engagement Plan was prepared and under implementation by the PIU. Also, a Grievance Redress Mechanism for the Project is in place for public access through the project website <http://sffs.mn> and effectively managed and maintained by the relevant PIU staff.

9. Given the continued commitment of the GoM to the Project, the progress it achieved since the latest implementation support mission, and its continued compliance in practice with the Bank's applicable requirements, the task team is supportive of the proposed restructuring.



C. Risk Assessment

10. There are no changes to the risk ratings of the Project, so the overall risk rating is Moderate. Political and Governance risk is Moderate given policies supported by and governance arrangements put in place for the Project largely remain unchanged despite the Cabinet/government changes occurred following the June 2020 Parliamentary Elections and in January 2021. While Macroeconomic risk is Substantial amid the significant revenue shortfall and surge in spending for economic stimulus measures during the COVID-19 pandemic, risks related to Sector Strategies and Policies as well as Institutional Capacity remain Moderate. While the latter could be/are at times influenced by macroeconomic difficulties, strong commitments to advancing the structural reforms with the support of the Project have been present during the project implementation, which translate into good progress recorded towards achieving the PDO as well as intermediate result indicators. Further Fiduciary and Environmental and Social risks also remain Moderate and Low, respectively.

II. DESCRIPTION OF PROPOSED CHANGES

A. Extension of closing date

11. While significant progress has been made in the implementation of the planned project activities, as evidenced by the progress made on the project's results framework and disbursements, some delays have been experienced particularly since early FY21 due to the COVID-19-related challenges as well as changes in government following the June 2020 Parliamentary and June 2021 Presidential elections. The requested additional time of fourteen months will allow the Bank, the MoF, and other beneficiaries of the project an opportunity to fully complete implementation of remaining activities. Further, it will enable, within the current scope of work and objectives of the project, further targeted technical assistance in the priority areas identified by the PEFA assessment in support of the government's structural reforms. The continued support of the project to the PFM Action Plan will also contribute to improvements in a number of indicators for the ongoing EU direct budget support operation.

B. Additional funding to the Grant

14. Associated with the request for additional time required to be able to complete and institutionalize the many structural reforms the project has been supporting, there is a need to ensure those priority reform actions already commenced and progressing well are sufficiently funded towards full completion. The current financing gap for the planned activities would require an increase in financing available to the project by a total of US\$0.5 million based on the currently estimated budget needed to strengthen institutional framework for transition to results-quality-performance based medium-term budgeting (MTBF) and to improve the expenditure control through integrated Treasury portal system with that allows performing Treasury payments electronically. Indicatively, additional funds to the Project, Component 2 are expected to be allocated in the area of i) enhancing and updating key elements of the PFM; and ii) Integrated Treasury Portal piloting and implementation, where the detailed activities are to be agreed and confirmed as part of the process of developing and approving the 2022 work plan for the project that is expected to be completed immediately following the restructuring.

C. Changes in the Results Framework



15. There is an opportunity to better align the Project's results indicator with the current project focus, activities, and budgets, in order to facilitate better measurement of project achievements. In particular, revision of one of the IRI's related to Component 1.2, was requested by the responsible MoF unit. The change requested is as follows:

- Component 1.2 – Intermediate result indicator: the current indicator “Develop a business plan of the investment/asset management entity of the SWF called the Future Heritage Fund Corporation (FHFC)” shall be revised as the latest FHF legal change postponed the creation of FHF Corporation since 2025 and it no longer adequately represents the main project activities under the component. Hence, to better align the IRI with the priority activities supported by the Project and their progress, a proposed new indicator “Develop core documents and guidelines to support Future Heritage Fund’s transition into the operational stage” would be consistent with the result indicator.

The revised results framework will be incorporated in the updated Project Operations Manual.

12. Project implementing according to plan and no changes in the ESCP and SEP.



III. SUMMARY OF CHANGES

	Changed	Not Changed
Results Framework	✓	
Components and Cost	✓	
Loan Closing Date(s)	✓	
Additional Financing Proposed	✓	
Disbursement Estimates	✓	
Implementing Agency		✓
Project's Development Objectives		✓
Cancellations Proposed		✓
Reallocation between Disbursement Categories		✓
Disbursements Arrangements		✓
Change in Overall Risk Rating		✓
Legal Covenants		✓
Institutional Arrangements		✓
Financial Management		✓
Procurement		✓
Implementation Schedule		✓
Other Change(s)		✓
Economic and Financial Analysis		✓
Technical Analysis		✓
Social Analysis		✓
Environmental Analysis		✓

IV. DETAILED CHANGE(S)

RESULTS FRAMEWORK

Project Development Objective Indicators



A comprehensive PFM strategy adopted and under implementation to support the achievement of fiscal discipline and strategic budget planning and execution as set forth in the FSL and the IBL.

Unit of Measure: Yes/No

Indicator Type: Custom

	Baseline	Actual (Current)	End Target	Action
Value	No	Yes	Yes	No Change
Date	31-Jan-2019	31-Dec-2020	31-Dec-2021	

Fiscal Council fully operational and producing independent fiscal reports towards increased transparency and accuracy of government macroeconomic and fiscal policy formulation.

Unit of Measure: Yes/No

Indicator Type: Custom

	Baseline	Actual (Current)	End Target	Action
Value	No	No	Yes	No Change
Date	31-Jan-2019	31-Dec-2020	31-Dec-2021	

Improved budget transparency by making available to the public key budget documents in accessible and user-friendly formats, as measured by the Open Budget Index (OBI).

Unit of Measure: Number

Indicator Type: Custom

	Baseline	Actual (Current)	End Target	Action
Value	46.00	56.00	61.00	No Change
Date	31-Jan-2019	31-Dec-2020	31-Dec-2021	

Intermediate Indicators

Develop core documents and guidelines to support Future Heritage Fund’s transition into the operational stage

Unit of Measure: Yes/No

Indicator Type: Custom

	Baseline	Actual (Current)	End Target	Action
Value	No	No	Yes	Revised
Date	31-Jan-2019	31-Dec-2020	31-Dec-2022	

Fiscal Council has developed and adopted its operational procedures.

Unit of Measure: Yes/No

Indicator Type: Custom



	Baseline	Actual (Current)	End Target	Action
Value	No	No	Yes	No Change
Date	31-Jan-2019	31-Dec-2020	30-Sep-2021	
Improved monitoring of contingent liabilities by consolidating balance sheets of SOEs and improving the fiscal sensitivity analysis. Unit of Measure: Yes/No Indicator Type: Custom				
	Baseline	Actual (Current)	End Target	Action
Value	No	No	Yes	No Change
Date	31-Jan-2019	31-Dec-2020	30-Sep-2021	
Better planning of capital investments by adopting a new PIM guideline that includes the Government of Mongolia's investment strategies fully costed (capital, recurrent operational and maintenance). Unit of Measure: Yes/No Indicator Type: Custom				
	Baseline	Actual (Current)	End Target	Action
Value	No	Yes	Yes	No Change
Date	31-Jan-2019	31-Dec-2020	31-Dec-2020	
A new PFM plan has been adopted by fiscal year 2020. Unit of Measure: Yes/No Indicator Type: Custom				
	Baseline	Actual (Current)	End Target	Action
Value	No	Yes	Yes	No Change
Date	01-Mar-2019	31-Dec-2020	31-Dec-2020	
The Glass Account Portal publishes at least annual data on programs as defined by the new program classification. Unit of Measure: Yes/No Indicator Type: Custom				
	Baseline	Actual (Current)	End Target	Action
Value	No	No	Yes	No Change
Date	01-Mar-2019	31-Dec-2020	31-Dec-2021	

**COMPONENTS**

Current Component Name	Current Cost (US\$M)	Action	Proposed Component Name	Proposed Cost (US\$M)
Component 1: Strengthening Macroeconomic and Fiscal Management	731168.00	No Change	Component 1: Strengthening Macroeconomic and Fiscal Management	731168.00
Component 2: Improving the Efficiency of Public Financial Management	1622279.00	Revised	Component 2: Improving the Efficiency of Public Financial Management	2098775.90
Component 3: Project Management	91396.00	No Change	Component 3: Project Management	91396.00
TOTAL	2,444,843.00			2,921,339.90

LOAN CLOSING DATE(S)

TF	Status	Original Closing	Revised Closing(s)	Proposed Closing	Proposed Deadline for Withdrawal Applications
TF-B0063	Effective	31-Dec-2021		28-Feb-2023	30-Apr-2023

UFS: DETAILED CHANGES: ADDITIONAL FINANCING TABLE**ADDITIONAL FINANCING**

Source	Currency	Amount	USD Equivalent
European Commission Development Fund - TF(EUDF)	EUR	442,000.00	500,000.00
Existing Net Commitment USD Amount			2,325,642.90
Total			2,825,642.90

DISBURSEMENT ESTIMATES

Change in Disbursement Estimates

Yes

Expected Disbursements (In US\$)

Fiscal Year	Annual	Cumulative
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The World Bank

Strengthening Governance in Mongolia (P168248)

2019	455,400.00	455,400.00
2020	0.00	455,400.00
2021	360,568.51	815,968.51
2022	1,500,000.00	2,315,968.51
2023	605,371.39	2,921,339.90

Note to Task Teams: End of system generated content, document is editable from here.