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Report No: PAD3961

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF SDR 14.7 MILLION  
(US\$20 MILLION EQUIVALENT)

TO

MONGOLIA

FOR A

MONGOLIA EMERGENCY RELIEF AND EMPLOYMENT SUPPORT PROJECT

June 8, 2020

Social Protection and Jobs Global Practice  
East Asia and Pacific Region

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## CURRENCY EQUIVALENTS

Exchange Rate Effective April 30, 2020

Currency Unit = Mongolia Tughrik (MNT)

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MNT 2786.99= US\$1

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US\$1.37 = SDR 1

## FISCAL YEAR

January 1 - December 31

Regional Vice President: Victoria Kwakwa

Country Director: Martin Raiser

Regional Director: Daniel Dulitzky

Practice Manager: Philip B. O'Keefe

Task Team Leader(s): Maheshwor Shrestha, Tungalag Chuluun

## ABBREVIATIONS AND ACRONYMS

COVID-19	Coronavirus Disease 2019
CPS	Country Partnership Strategy
DA	Designated Account
DFIL	Disbursement and Financial Information Letter
EPF	Employment Promotion Fund
EPP	Employment Promotion Program
ESF	Environmental and Social Framework
ESMF	Environmental and Social Management Framework
ESS	Environmental and Social Standards
FM	Financial Management
FMR	Financial Monitoring Report
GDP	Gross Domestic Product
GOLWS	General Office for Labor and Social Welfare Services
GoM	Government of Mongolia
GRM	Grievance Redress Mechanism
GRS	Grievance Redress Service
ICT	Information and Communications Technology
IFC	International Finance Corporation
IFR	Interim Financial Report
IPF	Investment Project Financing
IPSAS	International Public Sector Accounting Standards
IRR	Internal Rate of Return
IT	Information Technology
LFPR	Labor Force Participation Rate
LFS	Labor Force Survey
LMIS	Labor Market Information System
LMPPP	Labor Market Promotion Pilot Program
LSPRI	Labor and Social Protection Research Institute
M&E	Monitoring and Evaluation
MESP	Mongolia Employment Support Project
MIS	Management Information System
MLSP	Ministry of Labor and Social Protection
MNAO	Mongolian National Audit Office
MOF	Ministry of Finance
NGO	Nongovernmental Organization
NSO	National Statistics Office
ODA	Official Development Assistance
PAD	Project Appraisal Document
PDO	Project Development Objective
PES	Public Employment Service

PFI	Participating Financial Institution
PIU	Project Implementation Unit
PMR	Procurement Management Report
PMT	Proxy Means Test
POM	Project Operations Manual
PPSD	Project Procurement Strategy for Development
PR	Progress Report
PSC	Project Steering Committee
SDR	Special Drawing Rights
SEP	Stakeholder Engagement Plan
SI	Social Insurance
SIF	Social Insurance Fund
SIGO	Social Insurance General Office
SMEs	Small and Medium Enterprises
SOE	State-Owned Enterprise
SORT	Systematic Operations Risk-Rating Tool
TOR	Terms of Reference
TSA	Treasury Single Account
TTL	Task Team Leader
TVET	Technical and Vocational Education and Training
WA	Withdrawal Application
WHO	World Health Organization



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## DATASHEET

### BASIC INFORMATION

Country(ies)	Project Name		
Mongolia	Mongolia Emergency Relief and Employment Support Project		
Project ID	Financing Instrument	Environmental and Social Risk Classification	Process
P174116	Investment Project Financing	Moderate	Urgent Need or Capacity Constraints (FCC)

### Financing & Implementation Modalities

<input type="checkbox"/> Multiphase Programmatic Approach (MPA)	<input type="checkbox"/> Contingent Emergency Response Component (CERC)
<input type="checkbox"/> Series of Projects (SOP)	<input type="checkbox"/> Fragile State(s)
<input type="checkbox"/> Performance-Based Conditions (PBCs)	<input type="checkbox"/> Small State(s)
<input checked="" type="checkbox"/> Financial Intermediaries (FI)	<input type="checkbox"/> Fragile within a non-fragile Country
<input type="checkbox"/> Project-Based Guarantee	<input type="checkbox"/> Conflict
<input type="checkbox"/> Deferred Drawdown	<input checked="" type="checkbox"/> Responding to Natural or Man-made Disaster
<input type="checkbox"/> Alternate Procurement Arrangements (APA)	

Expected Approval Date	Expected Closing Date
23-Jun-2020	31-Dec-2023

Bank/IFC Collaboration

No

### Proposed Development Objective(s)

The project development objective (PDO) is to provide jobseekers and micro-entrepreneurs in Mongolia with improved access to labor market opportunities and to provide temporary relief to eligible workers in response to the COVID-19 crisis.



**Components**

Component Name	Cost (US\$, millions)
Supporting client-centric public employment services	2.00
Strengthening select active labor market programs	6.50
Facilitating labor market monitoring and analysis and project management	1.50
Providing temporary relief to eligible workers in response to COVID-19	10.00

**Organizations**

Borrower: Mongolia  
 Implementing Agency: Ministry of Labor and Social Protection

**PROJECT FINANCING DATA (US\$, Millions)**

**SUMMARY**

<b>Total Project Cost</b>	20.00
<b>Total Financing</b>	20.00
<b>of which IBRD/IDA</b>	20.00
<b>Financing Gap</b>	0.00

**DETAILS**

**World Bank Group Financing**

International Development Association (IDA)	20.00
IDA Credit	20.00

**IDA Resources (in US\$, Millions)**

	Credit Amount	Grant Amount	Guarantee Amount	Total Amount
<b>Mongolia</b>	20.00	0.00	0.00	20.00
National PBA	20.00	0.00	0.00	20.00



<b>Total</b>	<b>20.00</b>	<b>0.00</b>	<b>0.00</b>	<b>20.00</b>	
<b>Expected Disbursements (in US\$, Millions)</b>					
<b>WB Fiscal Year</b>		2021	2022	2023	2024
<b>Annual</b>		12.00	4.00	2.50	1.50
<b>Cumulative</b>		12.00	16.00	18.50	20.00

**INSTITUTIONAL DATA**

**Practice Area (Lead)**

Social Protection & Jobs

**Contributing Practice Areas**

**Climate Change and Disaster Screening**

This operation has been screened for short and long-term climate change and disaster risks

**SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)**

<b>Risk Category</b>	<b>Rating</b>
1. Political and Governance	● High
2. Macroeconomic	● Substantial
3. Sector Strategies and Policies	● Low
4. Technical Design of Project or Program	● Moderate
5. Institutional Capacity for Implementation and Sustainability	● Substantial
6. Fiduciary	● Substantial
7. Environment and Social	● Moderate
8. Stakeholders	● Substantial
9. Other	● Moderate
10. Overall	● Substantial





**COMPLIANCE**

**Policy**

Does the project depart from the CPF in content or in other significant respects?

Yes  No

Does the project require any waivers of Bank policies?

Yes  No

**Environmental and Social Standards Relevance Given its Context at the Time of Appraisal**

E & S Standards	Relevance
Assessment and Management of Environmental and Social Risks and Impacts	Relevant
Stakeholder Engagement and Information Disclosure	Relevant
Labor and Working Conditions	Relevant
Resource Efficiency and Pollution Prevention and Management	Relevant
Community Health and Safety	Relevant
Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Not Currently Relevant
Biodiversity Conservation and Sustainable Management of Living Natural Resources	Not Currently Relevant
Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Relevant
Cultural Heritage	Not Currently Relevant
Financial Intermediaries	Relevant

**NOTE:** For further information regarding the World Bank’s due diligence assessment of the Project’s potential environmental and social risks and impacts, please refer to the Project’s Appraisal Environmental and Social Review Summary (ESRS).

**Legal Covenants**

Sections and Description



**Institutional Arrangements**

Financing Agreement: Schedule 2, Section I.A.2

Recurrent, Continuous

The Recipient shall maintain, throughout the Project implementation period, a Project Steering Committee and a Project Implementation Unit within MLSP, and a technical team within SIGO, all with composition, functions, staffing and resources satisfactory to the Association and set out in the Project Operational Manual.

**Sections and Description**

**Project Operational Manual**

Financing Agreement: Schedule 2, Section I.B

By September 15, 2020, Recurrent, Continuous

The Recipient shall, no later than September 15, 2020, prepare and adopt the Project Operational Manual, and thereafter, ensure that the Project is carried out in accordance with the Project Operational Manual, and not amend, waive or abrogate any provisions of the manual unless the Association agrees otherwise in writing.

**Sections and Description**

**Annual Work Plans and Budgets**

Financing Agreement: Schedule 2, Section I.C

Recurrent, Annual

The Recipient shall prepare and furnish to the Association for its no-objection no later than November 30 of each fiscal year an annual work plan and budget during the implementation of the Project containing relevant Project activities and expenditures proposed to be included in the Project in the following fiscal year.

**Sections and Description**

**On-lending Agreement**

Financing Agreement: Schedule 2, Section I.D and Schedule 4

Recurrent, Continuous

The Recipient shall, through GOLWS to make the proceeds of the Credit available to the PFIs under on-lending agreements between the GOLWS and the PFIs, under terms and conditions acceptable by the Association; exercise its rights under the On-lending Agreements in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Credits.

**Sections and Description**

**SIF Contributions**

Financing Agreement: Schedule 2, Section I.E

Monthly, Continuous

The Recipient shall, through MLSP, prepare, and thereafter, furnish to the Association monthly reports regarding the SIF Contributions during the respective month in form and substance acceptable to the Association.

**Sections and Description**

**Safeguards**

Financing Agreement: Schedule 2, Section I.F

Recurrent, Continuous

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Environmental and Social Standards and the ESCP, and shall not amend, abrogate, repeal, suspend or waive any of their provisions



of ESCP unless the Association agrees otherwise

Sections and Description

**Mid-term Review**

Financing Agreement: Schedule 2, Section II.B

Once, 18 months after the Effective Date

The Recipient shall prepare and furnish to the Association a mid-term report in form and substance satisfactory to the Association.

Sections and Description

**EPF Manual**

Financing Agreement: Schedule 2, Section I.B

By November 15, 2020, Recurrent, Continuous

The Recipient shall, no later than November 15, 2020 and before the commencement of activities under Subcomponent 2.1, amend and approve the Employment Promotion Fund (EPF) Manual, and thereafter, ensure that the activities under Subcomponent 2.1 are carried out in accordance with the EPF Manual, and not amend, waive or abrogate any provisions of the manual unless the Association agrees otherwise in writing.

**Conditions**



## I. STRATEGIC CONTEXT

### A. Country Context

1. **Mongolia, as most countries across the world, has been affected by the outbreak of the coronavirus disease (COVID-19) that started spreading since December 2019.** On March 11, 2020, the World Health Organization (WHO) declared a global pandemic as COVID-19 rapidly spread across the world. As of June 3, 2020, the outbreak has resulted in over 6.5 million cases and over 385,000 deaths in 213 countries and territories.<sup>1</sup> The United States and countries in Europe currently lead in terms of confirmed cases.

2. **Mitigation measures taken by countries across the world have exacted a heavy economic toll.** As of end-April, more than half of the world's population are in some form of travel restriction imposed to contain the spread of the disease. Global and local supply chains have been disrupted and businesses have either been closed or remain open only for limited hours. The ongoing crisis and the uncertainty surrounding its duration and impacts, has deterred investments and lowered labor demand. Permanent business closures, rising unemployment, and loss of livelihoods are big concerns globally. Early estimates from the International Monetary Fund suggest that the world economy will contract by 3 percent, much worse than during the 2008–09 financial crisis.

3. **The COVID-19 shock has come at a time when Mongolia's economy is experiencing strong economic growth.** The strong economic recovery since 2017 has been underpinned by impressive fiscal outcomes, better coordination of macroeconomic policy, favorable global commodity prices, and strong recovery in private investment. Real gross domestic product (GDP) growth strengthened to 7.2 percent in 2018 from 5.3 percent in 2017. Following the gradual decline in commodity prices combined with a reduction in the quality of key mineral exports, growth slowed to 5.1 percent in 2019. However, inflation remained below its medium-term target (8 percent) in 2019. After an escalation in 2018, external sector pressures have also eased, largely dominated by a rapid deceleration of imports and bank credit growth and buoyed by robust capital inflows. Fiscal performance remained strong in 2019, supported by robust revenue performance and steady implementation of fiscal consolidation reforms. The overall fiscal balance turned around from a record high deficit of 15.3 percent of GDP in 2016 to a surplus of 2.6 percent in 2018 and 1.4 percent in 2019. Substantial improvements in the fiscal balance contributed to reduction of government debt in 2017–19.

4. **The COVID-19 crisis could undo much of the development gains of the past three years.** Mongolia was one of the first countries to face the economic impacts of COVID-19 due to its close link with the Chinese economy, particularly in trade, tourism, and foreign investments. Necessary stringent measures taken by the Government of Mongolia (GoM) since late January 2020 have brought the local economy to a standstill. The global nature of the crisis has led to a reduction in capital flows, commodity prices have fallen, and global demand for Mongolian exports and tourism have fallen and will continue to do so as the crisis deepens. This is expected to increase the pressures for the external sector, and balance of payments is likely to reach its highest deficit of the past five years. The National Statistics Office (NSO) of Mongolia reports that state revenue fell by 8 percent in the first quarter of 2020, with revenues from

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<sup>1</sup> <https://www.worldometers.info/coronavirus/>. Retrieved June 3, 2020.



mineral resources falling by 33.8 percent. The fiscal gains of the past three years are being rapidly eroded by unprecedented revenue losses and spending increase (for example, health care costs). The government debt as a share of GDP is likely to rise again in 2020 before falling starting from 2021, reversing the downward trend of recent years.

5. **Even in the pre-COVID-19 period, the country had been struggling to translate the benefits of growth into higher-quality jobs and higher household welfare, particularly among the poor.** The mining sector, which has led the export-oriented growth in Mongolia and accounted for 24 percent of GDP in 2018, has failed to create large numbers of decent-quality jobs. Only 6 percent of all jobs in 2018 are in the mining sector, which is an increase compared to recent years. The national poverty rate fell slightly from 29.6 percent in 2016 to 28.4 percent in 2018. A further 15 percent of the population was clustered just above the national poverty line, at risk of slipping into poverty in the event of unanticipated shocks. Between 2016 and 2018, the annual per capita consumption growth among the bottom 40 dropped down to 1.3 percent, 0.6 percentage points lower than the average consumption growth. During the same period, poverty reduction was uneven, declining in rural areas but not in urban areas. The lack of progress in poverty reduction in urban areas was mainly driven by stagnant wage growth in the poorest quintile. Consequently, poverty is increasingly concentrated in urban areas. Although the incidence of poverty is still higher in rural areas (30.8 percent) than in urban areas (27.2 percent), with two-thirds of the population living in urban areas, more than six out of ten poor people now live in urban areas.<sup>2</sup>

6. **The rapid worsening in the economic outlook due to COVID-19 has already translated to worsening employment outcomes and prospects.** Even during the economic boom between 2010 and 2014, the unemployment rate in Mongolia stayed relatively elevated and rarely dropped below 7 percent. Informal employment (often through low-level self-employment) and other relatively unproductive forms of employment also continue to be widespread. As the COVID-19 pandemic started to hit, mining and transportation sectors, which accounted for 12 percent of employment in 2018, have already seen a decline in output. Industrial production, which accounted for 23 percent of employment in 2018, contracted in the first quarter. Current and future containment measures are going to put further pressure on local firms, depressing output in the service sector, which accounted for 53 percent of employment in 2018. A recent survey by the Mongolian Chamber of Commerce indicated that about 8,000 jobs have been lost in the first three months since the COVID-19 outbreak. There is a concern that the worsening economic outlook may continue to translate into further layoffs, fewer jobs, and lower wages for the Mongolian workforce.

7. **The close link between unemployment and poverty is an important reason why improving labor market outcomes will become increasingly important during the crisis and even more so during the recovery phase.** In Mongolia, jobs and poverty are closely linked. Between 2014 and 2016, the unemployment rate increased by 4 percentage points while the poverty rates increased by 8 percentage points. In 2018, the poverty rate among the unemployed was 15 percentage points higher than the national average. The expected negative impacts of COVID-19 on employment outcomes will undoubtedly lead to higher poverty. Conversely, preventing job losses would prevent individuals from falling into poverty and providing better support to assist jobseekers to find jobs more efficiently or supporting micro-entrepreneurs to start or expand their business will speed up the recovery.

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<sup>2</sup> World Bank. 2020. Mongolia Poverty Update 2018. Report



8. **The GoM has introduced a large package of fiscal and monetary policy measures to help mitigate the negative impacts of the COVID-19 crisis and turbulence in the global economy.** Recognizing the need to immediately support its economy and workforce, the GoM has announced a substantial stimulus package of US\$1.8 billion (13 percent of GDP), including an on-budget fiscal stimulus of about US\$466 million (about 3.3 percent of GDP). The package consists of nine programs and was endorsed by Parliament on April 9, 2020. The economic stimulus package provides exemptions on social insurance (SI) contributions and personal income tax (excluding budget institutions and state-owned enterprises [SOEs]), corporate income tax (only for small and medium enterprises [SMEs]), enhanced social transfers and wage subsidies (to children and workers at risk of getting laid off), and soft loans to cashmere companies and SMEs to support herders. In addition to the fiscal support, the Bank of Mongolia recently announced a series of measures to stimulate aggregate demand. Although there are uncertainties over the duration and possible resurgence of the epidemic, going forward, the country will need ongoing measures to rebuild economic vitality, of which improving the labor market performance is an integral part.

9. **The World Bank, along with other development partners, has mobilized resources toward immediate relief and recovery of Mongolia from the crisis.** The World Bank has acted swiftly to support the GoM in its relief efforts. Ongoing projects were restructured to provide immediate support, including the Mongolia Employment Support Project (MESP, P159215) and the Mongolia Education Quality Reform Project (P148110). This project is also being prepared through quick resource mobilization. In addition, a Development Policy Operation is under preparation to support the GoM in its recovery from the crisis and will include support for social protection measures of the GoM.

## B. Sectoral and Institutional Context

10. **Three significant constraints—both acute and chronic—continue to affect the labor market of Mongolia.** These have contributed to relatively poor labor market outcomes in the country in general and for specific groups, such as youth and residents of Ulaanbaatar and other urban areas. Some of them have become more severe amid the COVID-19 crisis, but were in need of stronger policy action even before the crisis:

- (a) **Limited labor demand.** The general dearth of job vacancies, in particular for youth and other vulnerable groups with little work experience, has been a long-running feature of Mongolia's labor market. Even before the current crisis, 40 percent of unemployed youth were unemployed for more than two years; and 30 percent of youth waited, on average, more than two years to start their first job. 'Not enough jobs available' and 'no work experience' were two out of the three most frequently cited obstacles to finding a good job among both male and female youth in *aimag* centers (province centers) and Ulaanbaatar.<sup>3</sup> Such a labor market made it even more difficult for those without the technical and/or socio-behavioral skills to find opportunities in the labor market.
- (b) **COVID-19-related job uncertainty.** COVID-19 has added acute pressures to Mongolia's chronic labor demand challenges. The dramatic drop in commodity prices, slump in

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<sup>3</sup> The third frequently cited obstacle is 'not enough education' RAND Corporation. 2015. *Improving the Mongolian Labor Market and Enhancing Opportunities for Youth*. Report.



aggregate global demand, and the restrictions on mobility and economic activities put in place to contain the epidemic have strained many employers and, consequently, workers. Though economic restrictions are gradually being lifted, global demand and commodity prices are not expected to rise anytime soon. This suggests that job uncertainty is likely to be a feature of the Mongolian labor market in the near short term, and beyond, particularly in Ulaanbaatar and other urban centers.

- (c) **Job-search constraints related to incomplete information and poor labor market transparency.** Even before the crisis, many job seekers had little information about their labor market prospects or the market itself and perceived formal sources of labor market information as unhelpful. Yet, evidence shows that an exclusive reliance on informal sources of information such as friends and family can limit the speed, quality, and success rate of a jobseeker finding work, particularly among those with poor contacts. Only 5 percent of unemployed or inactive youth rely on state employment support organizations as sources of information about employment, and only 1 percent use public guidance on education and training opportunities.<sup>4</sup> The heightened labor market uncertainty due to the COVID-19 crisis makes the need to address these shortcomings more acute.

11. **The Mongolian labor market presents additional hurdles to specific groups which deserve special policy attention looking ahead.** Even before the COVID-19 crisis, rates of informality, unemployment, and/or inactivity were particularly elevated for a number of specific groups, including women, seasonal workers, rural-to-urban migrants, and youth. Mongolia has one of the highest rates of youth unemployment in the East Asia and Pacific Region, particularly among females. In 2018, the female unemployment rate was 3.9 percentage points higher for males,<sup>5</sup> and 21.5 percent of female (compared to 16.3 percent of male) youths were not in education, employment, or training. Problems with these groups have become even more prominent after COVID-19 and thus require special policy support.

12. **There are some notable gender-specific constraints in the labor market, which can explain why labor market outcomes are generally poorer for women.** At 53.4 percent, women's labor force participation rate (LFPR) is lower than men's, which in 2019 stood at 68.3 percent. Between 2010 and 2019, the gender gap in labor force participation rose by 46 percent, from 10.2 percentage points to 14.9 percentage points. The gender gap is apparent in the participation in microentrepreneurial activities as well. The labor force survey (LFS) data for the first two quarters of 2019 shows that only 11.7 percent of women with basic and secondary education were self-employed compared to 19.6 percent of men. Women in particular face greater barriers to becoming self-employed or starting a microbusiness, often due to a lack of access to social or financial capital. Consequently, only 37 percent of young self-employed entrepreneurs were females. Furthermore, low age at first-birth, lack of affordable childcare options, and social norms make it even more difficult for women to realize their potential in the labor market. Given the difficulties for women in participating in the labor market, the crisis and the ensuing recovery is expected to be much worse for women too.

13. **Labor market policies are considered important to promote employment in Mongolia.** Ultimately, many of Mongolia's labor market challenges are of structural nature and can best be solved

<sup>4</sup> RAND Corporation. 2015. *Improving the Mongolian Labor Market and Enhancing Opportunities for Youth*. Report.

<sup>5</sup> <https://databank.worldbank.org/reports.aspx?source=world-development-indicators>.



by a vibrant and growing private sector that creates a sufficient number of productive and well-paying jobs. At the same time, labor market policies and programs also have an important role to play in promoting employment, reducing structural and frictional unemployment, and addressing specific issues on the labor supply and demand side or the interplay between the two. They can be particularly effective when the private sector is a closely involved partner.<sup>6</sup>

14. **Public employment services, if well designed, can serve multiple purposes.** Internationally, it is best practice to address job-search constraints related to incomplete information through public and private employment services in partnership with employers and the provision and dissemination of labor market information and analysis. PES can address job-search constraints by facilitating the matching of labor demand and supply and access to labor market information that can help job seekers and others make more informed decisions, including on education, training, and career development. A lack of technical and socio-behavioral skills and of labor demand can be addressed through well-defined active labor market programs such as employment services, training, and support for micro-entrepreneurship.

15. **In recent years, the GoM and its Ministry of Labor and Social Protection (MLSP) have recognized and emphasized the importance of labor market policies and programs.** Mongolia's Sustainable Development Vision 2030 stresses the formulation and implementation of policies and programs to support employment and reduce the unemployment rate. It also explicitly mentions the need to train the younger generation with proper knowledge and skills to have decent work or run a private business. Moreover, the Law on Employment Promotion (2011) stipulates that the Government should create employment opportunities, link investment policies with employment promotion measures, regulate labor demand and supply, train a workforce consistent with labor demand, improve data and statistics on employment, and expand the scope of unemployment insurance.

16. **In addition to a conducive legal environment, corresponding implementation systems are in place and can serve as a starting point for addressing some of Mongolia's most pressing labor-related constraints.** With regard to PES, Mongolia has a comprehensive network of local offices that provide PES (labor and social welfare offices in *aimag* centers and districts of Ulaanbaatar, as well as the capital city labor department in Ulaanbaatar).<sup>7</sup>

17. **There is a good institutional basis to collect labor market information and conduct relevant analysis.** The General Office for Labor and Social Welfare Services (GOLWS) and the Labor and Social Protection Research Institute (LSPRI) are responsible for monitoring and evaluation (M&E) and labor market information and analysis, respectively. A central and integrated employment registry and information database holds records of job vacancies, registered job seekers, and beneficiaries of active labor market programs and serves as the basis of Mongolia's Labor Market Information System (LMIS). Institutional and noninstitutional clients can access the database through the internet and at electronic kiosks across the country. Survey-based labor market data are also collected.

18. **In 2019, the GoM spent MNT 39.5 billion (US\$15.8 million) on active labor market programs, locally known as employment promotion programs (EPPs).** Currently, there are seven EPPs including the

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<sup>6</sup> World Bank.2012. *Jobs. World Development Report 2013.*

<sup>7</sup> Unless otherwise noted, the term 'labor and social welfare offices' henceforth denotes both these offices and the capital city labor department in Ulaanbaatar. According to MLSP data, in 2015, labor and social welfare offices provided labor intermediation services to about 50,000 clients, 48.5 percent of whom were female.





Labor Market Promotion Pilot Program (LMPPP) that covers select active labor market programs under MESP. All EPPs are financed through the Employment Promotion Fund (EPF), implemented across the country in a uniform fashion, and are generally renewed or reformed annually. The MLSP's flagship programs are the 'Program for Providing Employment Skills Retaining Workplaces', and programs for supporting employment of specific population groups such as youth, herders, people with disabilities and senior professionals. A total of 237,000 people benefited from the active labor market programs in 2019.<sup>8</sup>

19. **Currently, specific barriers limit the effectiveness of the MLSP's implementation systems to address labor market constraints and to improve the access to labor market opportunities for jobseekers and micro-entrepreneurs:**

- (a) Because of organizational, informational, and relational limitations to being more responsive to client demands, few unemployed job seekers find work through labor and social welfare offices. Job counselors are overburdened with administrative tasks; interactions with employers on job vacancies and labor demand in general are very limited; there is little cooperation between public and private employment services; and information on job vacancies is often incomplete, out of date, or hard to access.
- (b) The impact of labor market monitoring and analysis is limited. The information that is available is scattered across different agencies, not systematically analyzed, and not presented and disseminated in a user-friendly way. As a result, there are no systematic labor market diagnostics and no comprehensive analysis of labor market conditions and developments.
- (c) The training provided as part of the Program for Providing Employment Skills and Retaining Work Places is insufficiently demand-driven and fails to comprehensively address skills constraints faced by program beneficiaries, in particular by not integrating vocational training with socio-emotional skills and on-the-job-training through an internship or similar means.
- (d) The Entrepreneurship Development Program's principle of partnering with banks to distribute microloans is sound and the program successfully strengthens women's opportunities as entrepreneurs. However, it largely fails to address nonfinancial hurdles to starting or growing a microenterprise. Other design inadequacies also limit program access to youth and some other groups most in need of support.<sup>9</sup>

20. **The COVID-19 crisis has exacerbated the underlying structural issues in the Mongolian labor markets.** Increased layoffs from employers and a slump in global demand will put increasing pressure on labor market intermediation services as Mongolia starts to ease local restrictions. Better use of information to guide policies, efficient work organization of PES, and more efficient employment counseling and job matching systems are going to be increasingly important as the labor market recovers. Opportunities outside wage employment, toward more productive microenterprises, will also ease the

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<sup>8</sup> National Employment Council report on EPF 2019 performance.

<sup>9</sup> Mongolmaa, Norjinkham. 2016. "Review of Implementation Realities of Mongolia's Employment Promotion Policies and Programs." Unpublished World Bank manuscript; Yadamsuren, Ulziibold. 2016. "Review of the Micro-Credits Financed from the Employment Promotion Fund." Unpublished World Bank manuscript.



labor demand that will be further depressed by the COVID-19 crisis.

21. **The SI system of Mongolia can also be a powerful policy tool to provide relief for workers and employers and facilitate recovery from the COVID-19 crisis.** The coverage of SI schemes is high in Mongolia with 81.3 percent of the labor force participating in 2018, the highest rate in EAP. SI in Mongolia consists of pension insurance, short-term benefits (sickness and maternity) insurance, health insurance, insurance against employment injury and occupational diseases, and unemployment insurance. Contributions and benefits are managed through the Social Insurance Fund (SIF) by the Social Insurance General Office (SIGO) under the MLSP. SI contributions, excluding health insurance, are 13.5 percent and 22 percent of reported incomes under the voluntary and mandatory SI schemes, respectively. Under the mandatory scheme, employers pay 12.5 percent and employees pay 9.5 percent of their pretax earnings or wage bill. During times of social distancing and economic downturn like the present one, maintaining contributions will present an undue financial burden for employees and employers. For employers, it could translate to a higher likelihood of laying off workers or, worse, shutting down. Even temporary shutdowns are costly as the recovery often requires having to find and train workers to return to the normal levels of production. Failure to pay contributions, however, would result in loss of coverage for unemployment and other risks precisely at the point of highest need. Providing contribution relief would assist both employers and workers in weathering the crisis so that they can recover quickly once the economic restrictions are lifted.

22. **Recognizing this, temporary exemption of SI contribution features prominently in the GoM stimulus package, but the measure creates substantial financial commitments for the authorities.** The Parliament of Mongolia approved the 'Law on Exemptions for SI contribution and Assistance from Unemployment Insurance Fund' on April 9, 2020. It provides a legal framework for SI contribution relief for the period from April 1, 2020, to September 30, 2020, for all workers enrolled under the voluntary SI contribution scheme and eligible employers and workers enrolled in the mandatory SI scheme. Under the mandatory scheme, the relief applies to employers that have been adversely affected by the COVID related crisis and their employees. The public sector employees and employees of the publicly funded entities are not eligible to benefit from this measure. It is expected that the relief applies to about 120,000 workers enrolled in the voluntary SI scheme and over 400,000 workers and 38,000 employers under the mandatory SI scheme. The total cost of this measure is estimated to be about US\$228 million (1.6 percent of GDP), and the Government is facing financing gaps to fully implement the relief measure.

23. **The World Bank-funded MESP (P159215) has made, and continues to make, significant headway across multiple issues affecting the labor markets of Mongolia as well as the COVID-19 relief.** The MESP has been providing financing to improve PES management practices and renovation offices, modernize the LMIS, and pilot active employment programs. The active labor market programs have started providing loans and nonfinancial training and services to selected micro-entrepreneurs and grants to local labor and social welfare offices to pilot innovative employment service initiatives tailored to the local labor market needs. And with recent rapid restructuring, the MESP is directing financing to provide temporary relief to eligible workers in response to COVID-19 by financing the SI contribution relief for about 120,000 workers enrolled in the voluntary SI scheme for a period of five months.

24. **In addition, through a Korean Official Development Assistance (ODA) and in coordination with the MESP, the MLSP is in the process of improving the job-matching technology used in the PES offices in Mongolia.** The Korean ODA is expected to provide hardware and software support to improve the



quality of job-matching services offered by PES in Mongolia. The MESP is coordinating with Korean support to make sure that the two efforts work together to deliver higher quality employment services for the Mongolian labor market.

25. **The project intends to expand and build upon the activities conducted through the MESP and the Korean ODA.** The project will pilot and implement the PES modernization initiatives that address the job-search constraints which are currently being developed under the Korean ODA and the MESP. The project will continue active labor market programs that address the scarcity of decent jobs. It will also aid workers and employers during the COVID-19 crisis and help address uncertainties in the labor market.

### C. Relevance to Higher Level Objectives

26. **The project will contribute to realizing Mongolia's Sustainable Development Vision 2050 approved recently.**<sup>10</sup> The vision identified the priority areas for Mongolia's long-term development policies as, among others, to ensure human development, enhance employment opportunities and improve the quality of life, therefore eliminating social inequalities significantly, increasing the middle class, and promoting sustainable and inclusive economic growth. It notes the lack of improvement in labor market indicators and stresses the importance of employment promotion policies and interventions to effectively address the increasing mismatch between the labor market demand and skills supply, seasonal nature of employment, low productivity, and lack of quality jobs and decent employment opportunities by effectively supporting the private sector and SMEs as well as promoting self-employment and start-up businesses.

27. **The project will also contribute to the Government Action Plan.** As for the Government Action Plan 2016–20, among other measures that are proposed to increase employment and improve social protection, the plan stipulated that the Government (a) “shall exercise the policy to raise the value and competency of Mongolian citizens ...;” (b) “based on labor market research outcomes, develop training system to prepare qualified/skilled workers that meet the demand of labor market;” and (c) “implement employment support policy that ... support local initiatives.”

28. **The project will contribute to the realization of the GoM's economic relief measures and stimulus package announced in response to the COVID-19 induced crisis.** The package includes a set of fiscal and monetary policy measures to offset the negative impacts of the COVID-19 crisis on people, business entities, and the economy. While the package covers temporary (six-month) exemptions on SI contributions and personal income tax (excluding budget institutions and SOEs), corporate income tax (only for SMEs), social transfers (to children and workers at risk of getting laid off), and soft loans to cashmere companies that would indirectly support the livelihood of herders, the project contributes specifically to the SI contribution exemption measure given the role and importance of the SI coverage of workers at the times of crisis and the aftermath.

29. **The project is closely aligned with the World Bank Group's Country Partnership Strategy (CPS) for Mongolia for the period FY2013–FY2017, (Report No. 67567-MN) which was extended until December 31, 2020.**<sup>11</sup> In particular, it is aligned with the third pillar of the CPS on addressing vulnerabilities

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<sup>10</sup> Vision 2050 was approved by the Parliament on May 13, 2020.

<sup>11</sup> World Bank. 2019. Mongolia - Performance and Learning Review of the Country Partnership Strategy for the Period FY13-



through improved access to services and better service delivery, safety net provision, and improved disaster risk management and more specifically with Outcome 3.1 on working with the GoM on the design, adoption, and implementation of a comprehensive social protection system that supports the poor. Since the formulation of the CPS, significant progress has been achieved on this outcome. At the same time, the COVID-19 crisis has made it clear that while social assistance benefits are required, secure incomes need to be an integral part of a comprehensive social protection system that supports the poor and they need to be complemented by effective employment support policies and programs that improve employment outcomes.

30. **This project is part of the emergency support operations launched by the World Bank in response to COVID-19.** The first phase of the response included support to countries to finance health operations to combat the COVID-19. The second phase of the response also includes support to countries to finance economic and social response. The broader economic program aims to shorten the time to recovery, create condition for growth, support small and medium enterprises, and help protect the poor and vulnerable.<sup>12</sup> Over US\$160 billion has been committed by the World Bank towards this purpose over the next 15 months. Such emergency operations have already reached 100 countries as of May 19, 2020.<sup>13</sup>

## II. PROJECT DESCRIPTION

### A. Project Development Objective

#### PDO Statement

31. The Project Development Objective (PDO) is to provide jobseekers and micro-entrepreneurs in Mongolia with improved access to labor market opportunities and to provide temporary relief to eligible workers in response to the COVID-19 crisis.

#### PDO Level Indicators

32. The achievement of the PDO will be measured through the following indicators:

- (a) Number of beneficiaries receiving labor intermediation services in an upgraded labor and social welfare office (overall and female).
- (b) Percentage of beneficiaries of micro-entrepreneurship support whose microenterprise is still in business, at least 6 months after receiving a microloan (overall and female).
- (c) Number of beneficiaries who received temporary relief from their social insurance

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FY18 (English). (Report No 139667-MN) Washington, D.C.: World Bank Group.

<sup>12</sup> <https://www.worldbank.org/en/news/press-release/2020/04/02/world-bank-group-launches-first-operations-for-covid-19-coronavirus-emergency-health-support-strengthening-developing-country-responses>

<sup>13</sup> <https://www.worldbank.org/en/news/press-release/2020/05/19/world-bank-group-100-countries-get-support-in-response-to-covid-19-coronavirus>



contributions (overall and female).

## B. Project Components

33. This project expands and builds upon the activities being implemented under the MESP, restructured in early May 2020, and therefore has the same components and structure.<sup>14</sup> As with the MESP, Component 1 supports a comprehensive realignment of the current PES system to serve greater numbers of employers and job seekers in a more client-driven fashion, with greater collaboration with private intermediation services. Component 2 strengthens the design, relevance, and demand orientation of select active labor market programs. Component 3 improves the quality of and access to labor market reporting and analysis to help institutional and noninstitutional clients make more informed decisions and provides support for strengthening M&E and project management. Component 4 provides temporary SI contribution relief for eligible workers to ease their financial burden and ensure uninterrupted SI coverage during the crisis and prevent adverse consequences in the future. Project activities in Components 1, 2, and 3 address specific constraints of youth and other vulnerable groups, including specific actions to address gender gaps in the labor market, and integrate the private sector into project activities hands-on. All the activities in the first three components will serve the viable goal during the COVID-19 recovery period to avoid procyclicality, ensure continuous public service provision, and support the vulnerable, and they represent a set of policy measures that can be more effective than typical money and fiscal stimulus in developing countries.<sup>15</sup> Component 4 emphasizes relief and quick recovery from the COVID-19 crisis, which reflects the policy goal of short-term relief measure to avoid mass layoffs and bankruptcies. Annex 1 summarizes the implementation arrangements in detail. Table 1 shows the main activities conducted under the MESP and this follow-up project to highlight key differences across the two projects and illustrate the interlink between the two.

### **Component 1. Supporting client-centric public employment services (US\$2.0 million)**

34. Component 1 will address job-search constraints related to incomplete information and poor labor market transparency by supporting client-centric PES, which is particularly salient at times of crisis. The guiding principle for the component will be to empower job counselors to focus on clients—jobseekers and employers—and their core functions of finding the best possible jobs or employment opportunities for jobseekers and finding qualified pool of workers for employers. This will enable PES to be both more efficient and effective in achieving quality job placements which further attracts more employers and more and higher-skilled job listings. Efficient PES can enhance the speed and quality of the match between employers and job seekers, which should help accelerate the recovery from COVID-19-related employment crisis.

35. This component will complement the initiatives under the MESP, as outlined in Table 1, by operating on two levels. First, it will continue supporting the comprehensive upgrading of the selected labor and social welfare offices. It will include the following activities: (a) development and implementation of the streamlined work organization based on the recommendations from the functional

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<sup>14</sup> Most activities within this project were initially planned under the MESP. The scope of the activities under the MESP was heavily reduced during the restructuring of the MESP to support COVID-19 relief efforts of the GoM.

<sup>15</sup> Loayza, Norman V., and Steven Pennings. 2020. "Macroeconomic Policy in the Time of COVID-19: A Primer for Developing Countries" World Bank, Washington D.C.



reviews; (b) a coordinated piloting and deployment of the LMIS (developed under the MESP) and of an ICT-based job-matching tool (developed under the Korean ODA) for better synergy; (c) physical upgrading of the GOLWS office to house the improved LMIS and facilitate streamlined work organizations and training facilities; and (d) capacity strengthening of PES through technical assistance and staff training. Second, complementary systemic measures will improve the efficiency and coverage of the PES in partnership with private employment services through: (a) a functional review of private employment services' service standards, work processes, and performance measurement; (b) improved links between public and private employment services through an expansion of shared job vacancy listings and other activities; and (c) a communication/outreach campaign to advertise upgraded services to the central target groups for the project, such as the youth and other vulnerable groups.

36. To achieve these objectives, the component will finance consultants to support the functional review of private employment services; the deployment and implementation of streamlined work organization and service standards; the physical modernization of the GOLWS in the form of provision of furniture, promotional material and ICT equipment, and small-scale interior remodeling; a communication/outreach campaign; and training and capacity-building measures. All activities are based on international best practice that has demonstrated that integrated investments in human resources, physical sites, and technology in partnership with private providers is central to supporting client-centric PES.

## **Component 2. Strengthening select active labor market programs (US\$6.5 million)**

37. Component 2 will strengthen the design, relevance, and demand orientation of select active labor market programs. Based on international best practice and lessons from the implementation of the MESP, it will finance interventions to address the lack of labor demand, which have now further deteriorated due to the COVID-19 crisis, and necessary skills. It will have two subcomponents.

### *Subcomponent 2.1: Support for micro-entrepreneurs (US\$5.5 million)*

38. Subcomponent 2.1 will support new opportunities for starting and growing a sustainable microenterprise through the provision of comprehensive financial and nonfinancial support. This component addresses two important constraints in the Mongolian labor market. First, it provides support to existing and new micro-entrepreneurs who are particularly vulnerable to the economic impacts of the COVID-19 crisis and face increasingly uncertain prospects in the labor market. Second, it addresses the chronic labor market constraint related to a lack of labor demand and specifically to the development of a productive microenterprise sector. Based on international and national evidence that providing a package of training and financing is most effective (especially for female micro-entrepreneurs), a range of nonfinancial services will be integrated with access to affordable finance.<sup>16</sup> This will also be a key differentiator compared to the type of support currently available in Mongolia. The subcomponent will finance: (a) a range of nonfinancial support services, including business skills and development training; specialist training modules; mentoring, peer-to-peer, and alumni networks; and market links to be

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<sup>16</sup> Cho, Yoonyoung, and Maddalena Honorati. 2014. "Entrepreneurship Programs in Developing Countries: A Meta Regression Analysis." *Labour Economics*; Schmillen, Achim, and Nina Weimann-Sandig. 2018. "Perceptions of Precariousness: A Qualitative Study of Constraints Underlying Gender Disparities in Mongolia's Labor Markets", World Bank, Washington, DC. World Bank. 2013. Buvinic, Maya, and Rebecca Furst-Nichols. "Promoting Women's Economic Empowerment - What Works?" World Bank Working Paper, World Bank, Washington, DC.



delivered on a flexible basis to meet beneficiary needs; and (b) financial support in the form of microloans for new and existing microenterprises supplemented by interest rate relief during the COVID-19 crisis. This subcomponent will target equal participation of females through greater and focused outreach. This subcomponent will leverage the technical assistance activities such as capacity building for MLSP staff and training providers and support for outreach, screening, selection, and curriculum development which have been conducted under the MESP. The same implementation setup as in the MESP will be continued to provide services to more beneficiaries.

39. As with the MESP, the program will be implemented in all nine districts of Ulaanbaatar and all 21 aimag centers. The program will be open to either jobseekers or microentrepreneurs with selection criteria balancing vulnerability and likelihood of benefiting from the program. Equal representation of genders will be targeted to address gender disparities in the labor market including in participation in micro-entrepreneurship. About 1,400 beneficiaries are expected to be supported through this component, with loan amounts of MNT 5 million to MNT 10 million (US\$1,800 to US\$3,500) per beneficiary.<sup>17</sup> A beneficiary selection system, based on points, will be documented in the EPF manual in a manner similar to the MESP.<sup>18</sup> The selection process and pre-loan training, designed to increase their business awareness, knowledge, and skills and to help them develop a viable business plan, will be managed by local labor and social welfare offices and local selection committees established according to the procedures outlined in the EPF manual. The selected candidates will then be referred to the participating financial institutions (PFIs) that will evaluate the creditworthiness of short-listed applicants and decide whether microloans can be supplied. Loans will be approved solely for business activities that are not in the negative list in terms of their environmental and social impacts. Successful candidates will be referred to the relevant post-loan nonfinancial support services provided within the project.

40. As in the case of the MESP, financial support will be provided through PFIs in the form of microloans. PFIs will be selected by the MLSP under the provision of no-objection by the World Bank through open bidding among eligible financial institutions. After the COVID-19 pandemic effects end, loans from the MLSP to PFIs will be priced at a commercial rate at the low end of the commercial interest rate range and proposed on-lending rates from PFIs to beneficiaries will be a key factor in the bidding process. The rates paid by PFIs will signal and motivate good financial practice within the financial sector and help embed the project's lending mechanisms more sustainably post implementation. In a normal market setting, on-lending rates should be adequate to increase access to finance for beneficiaries, cover all relevant costs incurred by PFIs, and provide a profit margin adequate to encourage lenders to compete. To ensure credit access for the most vulnerable, microloans will be supplemented by interest rate relief to the most vulnerable beneficiaries.

41. To ensure access to credit and to provide relief to beneficiaries during the exogenous shock

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<sup>17</sup> To ensure coverage of vulnerable populations with potentially higher credit risks, access to smaller loans (in a range of MNT 3 million to MNT 5 million) will be granted at the discretion of the selection panel based on an applicant's business experience and vulnerability. Such beneficiaries will still need to qualify other criteria as specified in the EPF manual.

<sup>18</sup> The points will be based on criteria of vulnerability such as (a) 'citizens having difficulty finding employment' as defined in the Employment Promotion Law; (b) young people of ages 18 to 34; (c) technical and vocational education and training (TVET), college, or university graduates; and (d) poverty status. Additional selection criteria for the micro-entrepreneurship support will be: (a) entrepreneurial aptitude; and (b) job creation potential. Activities financed under this component will be low or moderate risk in terms of negative environmental and social consequences. A negative list of high-risk activities will be produced that will not be eligible for financing under the project.



created by COVID-19, a lower subsidized interest rate will be made available for the duration of the crisis. The subsidized rate and the duration of the subsidy will be determined by the MLSP based on the extent of the COVID-19-related crisis and prevailing relief measures in the country and will be subject to no-objection from the World Bank. Such a subsidized rate will, at the minimum, cover the lowest cost of capital. The MLSP will need to ensure that the subsidy is translated into proportionately lower on-lending rates for the beneficiaries and will apply for the same period as subsidized interest rate for the PFIs.<sup>19</sup>

42. Detailed implementation arrangements for this subcomponent and relevant World Bank policies on financial intermediary financing are described in annex 1. Compliance review on financial intermediary financing (OP10.00 [Investment Project Financing]) is presented in annex 2.

*Subcomponent 2.2: Skills innovation program (US\$1.0 million)*

43. Subcomponent 2.2 will provide an opportunity to the MLSP to flexibly pilot innovative active labor market programs designed to impart skills valued by the labor market. The interventions to be piloted under the skills innovation program will be agreed upon with the World Bank and will need to: (a) have rigorous evidence (international) demonstrating its impact on key employment outcomes; (b) not replicate an existing government program; (c) be feasible to implement in the local context; (d) be implemented using a rigorous impact evaluation design; and (e) be a program that the MLSP intends to scale up as one of the key active labor market programs after the project ends. This subcomponent will be managed directly by the Project Implementation Unit (PIU) and will serve as a ‘proof of concept’ for the effectiveness of the intervention piloted under the skills innovation program. This subcomponent can build upon some of the activities conducted under the MESP, such as development of a socio-emotional-skills curriculum. The project can finance necessary consultancies to implement and conduct the pilot.

**Component 3. Facilitating labor market monitoring and analysis and project management (US\$1.5 million)**

44. Component 3 will enhance the scope, quality, and availability of labor market information for institutional and individual users, to allow them to make informed decisions. In addition, it will provide support for M&E and project management. It will consist of two subcomponents.

*Subcomponent 3.1: Labor market monitoring and analysis (US\$0.5 million)*

45. More complete and widely available labor market information will address job-search constraints related to incomplete information, by guiding job-search and skills-preparation processes of job seekers and students making career choices and directing policy makers in the evidence-based reform of education and labor programs. Subcomponent 3.1 will continue to complement the activities conducted under the MESP to improve the scope, quality, and availability of labor market information. In conjunction with the MESP, this subcomponent will conduct the following labor market monitoring and analysis: (a) impact evaluation of the skill innovation program pilot implemented under Subcomponent 2.2; (b) complete the study on unemployment initiated under the MESP; and (c) extend the Barometer survey to study the occupational structure and skills demand. The subcomponent will finance consultant support

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<sup>19</sup> For example, if the subsidized rate is 4 percentage points lower than the commercial rate for seven months, micro-loan beneficiaries under the project must also get a 4 percentage points lower (on-lending) interest rate for the first seven months of their loan cycle.





for the impact evaluation, a study on unemployment, and a skills demand study, dissemination activities, and fieldwork required for the impact evaluation. The subcomponent will also provide technical support and incremental financing to support extension of the Barometer skills demand survey.

*Subcomponent 3.2: Project management and monitoring (US\$1.0 million)*

46. Subcomponent 3.2 will provide day-to-day implementation and operational support to the MLSP and the PIU established therein to efficiently implement the project. This will include the support of M&E activities and the financing of the PIU’s coordination and management activities.

**Component 4. Providing temporary relief to eligible workers in response to COVID-19 (US\$10.00 million)**

47. Component 4 will provide temporary relief to eligible workers in response to COVID-19. The liability of paying monthly SI contribution presents an undue financial burden for employers and workers at the times of crisis, contributing to higher job loss and business shutdowns. The Parliament of Mongolia has enacted a law that provides a legal framework for SI contribution exemption for eligible workers under the mandatory and voluntary SI schemes. The exemption, effectively a contribution subsidy to eligible employers and employees, exerts a fiscal pressure on the SIF that has to pay out the recurrent set of benefits. The component therefore transfers funds to the SIF to partially compensate it for the subsidy and support the SIF’s ability to timely pay short-term benefits such as unemployment benefits during the crisis and to contribute to ensuring its financial sustainability in the longer-term. This component provides SI contribution relief for eligible employers and their workers under the mandatory SI scheme. The same exemption for workers under the voluntary scheme is being supported under the MESP.

48. The eligibility criteria for employers are determined by the ‘Law on Exemptions for SI contribution and Assistance from Unemployment Insurance Fund,’<sup>20</sup> and the implementation arrangements are established by government procedure.<sup>21</sup> Workers in the public sector, as well as those working in publicly funded entities, are ineligible. Eligible employers are those who are adversely affected by the COVID-19 crisis as determined by SIGO and its local branches in accordance with the law and related procedures. Since a full coverage of the expected number of beneficiaries for six months is beyond the resource envelope of the project, the project will support as many beneficiaries as possible for a duration of one month. Project aimags/districts for this component will be selected based on the most recent estimate of poverty rate, level of contribution, expected number of potential beneficiaries, and budget. All legally defined eligible workers and employees in the selected aimags and districts will be the beneficiaries of this component.

**Table 1. Main Activities under the MESP and Current Project**

Project Component	Activity under the Restructured MESP	Activities under the Current Project
1. Supporting client-centric public employment services	(a) Physical modernization of 14 selected on-site offices (b) Complementary systemic	(a) Physical modernization of the GOLWS (b) Streamlined work organization of

<sup>20</sup> <https://www.legalinfo.mn/law/details/15244?lawid=15244>

<sup>21</sup> <https://www.legalinfo.mn/law/details/15274>



	measures to improve performance (functional and technical review of PES and PES information technology (IT) systems, capacity strengthening, development of the LMIS system)	labor and social welfare offices with improved work organization and improved LMIS (c) Capacity strengthening of PES (d) Complementary systemic measures to improve performance (links between private and public employment services, strengthening of the LMIS, and communication/outreach campaign to advertise upgraded services)
2. Strengthening select active labor market programs	(a) Microloan support for micro-entrepreneurs (b) Employment promotion piloting programs (local labor and social welfare offices to pilot new and innovative EPPs)	(a) Comprehensive support for micro-entrepreneurs with access to a reduced rate microloan financing and pre and post loan support (b) ii. pilot a skills innovation program to impact market demanded skills under a flexible PIU management
3. Facilitating labor market monitoring and analysis and project management	(a) Labor market bulletins (b) Policy-relevant labor analysis in the form of a labor demand study (c) Initiative on policy-relevant labor analysis on a topic selected by the GoM (unemployment) (d) Project management and monitoring	(a) Complete policy-relevant labor analysis on unemployment (b) Rigorous impact evaluation of the skills innovation program (c) Policy-relevant labor analysis in the form of a labor and skills demand study (d) Project management and monitoring
4. Providing temporary relief to eligible workers in response to COVID-19	(a) Provide SI contribution relief to workers enrolled in voluntary SI scheme for five months.	(a) Provide SI contribution relief on behalf of eligible employers and their workers enrolled in mandatory scheme for one month

C. Project Beneficiaries

49. The project has two categories of beneficiaries. The first category of beneficiaries are job seekers and micro-entrepreneurs from vulnerable groups who receive improved access to labor market opportunities through the project. The second category of beneficiaries is eligible employers and their workers from selected districts and aimags who receive temporary relief from their SI contributions.

50. Based on the definition in Mongolia’s Employment Promotion Law, this project defines ‘job seekers’ as all those who are either unemployed or employed but seeking a new job. Enterprises of ‘micro-entrepreneurs’ have an invested capital and annual sales of up to MNT 50 million. For the project, ‘vulnerable groups’ are: (a) ‘citizens having difficulty finding employment’ as defined in the Employment Promotion Law; (b) young people of ages 18 to 34; and (c) poor households as for instance measured by the PMT methodology. ‘Improved access to labor market opportunities,’ reflects overcoming specific constraints that impede labor market integration, such as a lack of information, labor demand or skills,



and limited labor market transparency that limit beneficiaries' access to labor market opportunities.

51. Based on the 'Law on Exemptions for SI Contribution and Assistance from Unemployment Insurance Fund'<sup>22</sup> approved by the Parliament of Mongolia on April 9, 2020, and the subsequent government procedure for implementation of the said law,<sup>23</sup> this project defines 'eligible employers' and 'eligible workers' as those who are eligible to receive SI contribution exemption under the mandatory SI scheme. As per the law, private entities that retained their employees despite their businesses being adversely affected<sup>24</sup> by COVID-19-induced economic crisis, and their employees are exempt from SI contributions imposed on their wages and similar income, from April 1, 2020, until October 1, 2020, where the insured shall be deemed to have paid their contributions within this time.

52. People not eligible for the SI exemption measure are as follows: (a) the insured who work in public institutions; (b) the insured who work in a state or locally owned entity or their affiliated entities, except state-owned universities or colleges; and (c) the insured whose SI contributions shall be paid from salary earned for providing goods, works, or services on foreign or international organization's loan or grants.

53. Eligible workers are those who have been employed by the eligible employers either before or during the crisis. The number of insured employees exempted from SI contributions during April–September 2020 shall not exceed the highest number of insured employees during April–September 2019 and January–March 2020. This was regulated in this way considering the high seasonality factor and its implications to the businesses in the country. 'Temporary relief' refers to a period for which the project supports the measure under the mentioned law. Project beneficiaries will be the eligible employers and their workers in target aimags and districts selected based on poverty incidence rate, level of contributions, expected number of potential beneficiaries, and budget.

54. In addition to the abovementioned direct beneficiaries, the project has a spillover impact on the current and future beneficiaries of the SIF as well as the Mongolian economy by helping ensure the fiscal sustainability of the SIF. However, it is not possible to attribute such spillovers directly to the project activities. Likewise, providing subsidized credit to PFIs to lend to micro-entrepreneurs will also help in maintaining the health of PFIs during the time of crisis.

#### D. Results Chain

55. The Project will achieve its PDO by addressing acute and chronic constraints of labor market demand, labor market intermediation, and employment impacts of COVID-19 crisis. These short-term results will help provide jobseekers and micro-entrepreneurs in Mongolia with improved access to labor market opportunities in the medium term, enhance the resilience of the key elements of labor markets (workers and employers) in response to COVID-19, ensure SIF viability, and ultimately contribute to an improved labor market performance in the country. The Project's Theory of Change is presented in Figure

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<sup>22</sup> <https://www.legalinfo.mn/law/details/15244?lawid=15244>

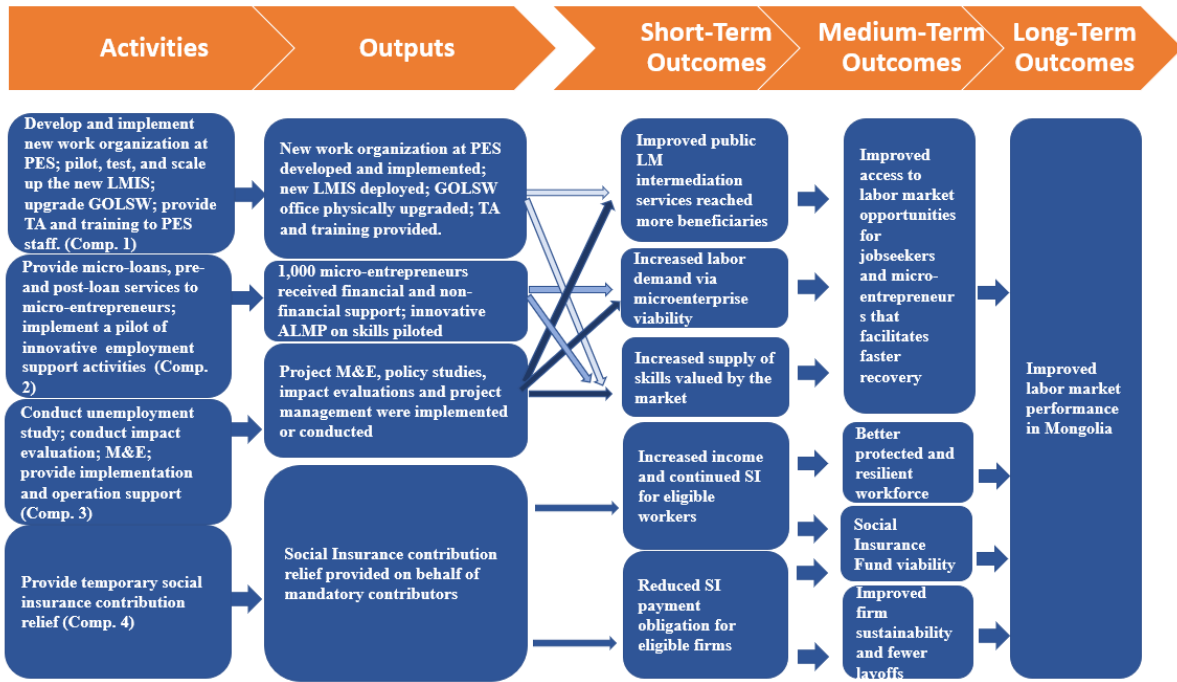
<sup>23</sup> <https://www.legalinfo.mn/law/details/15274>

<sup>24</sup> According to the approved procedure "Decline of the sales revenue of a private enterprises in any of the months of April–September 2020 in comparison with the same period of the previous year is considered to be a 'failure of operations and a decrease in revenue' if it is confirmed by tax reports and tax receipts". Newly established entities that became a registered SI payer after March 25, 2020, will be not eligible for the SI exemption.



1 below.

Figure 1. Theory of Change



Note: ALMP = Active Labor Market Program; TA = Technical Assistance.

56. Component 1 supports client-centric public employment services and will help improve the efficiency of labor market matching through technology-aided streamlining of work organization. With improved work organization, PES caseworker can focus the needs of employers and employees, thereby generating better employment and career outcomes for the jobseekers and finding better quality candidates for employers. With better labor market information system, the gaps in skills will be identified sooner, alerting the market and jobseekers on the type of skills that are valued. Freeing caseworker time to focus on clients will be particularly useful during the times of crisis as the burden on PES will be high due to lower labor demand and higher number of jobseekers.

57. Component 2 will help strengthen select active labor market programs to boost labor demand and supply of skills. Under subcomponent 2.1, micro-entrepreneurs will receive subsidized loans and training that can potentially expand labor demand and stimulate the development of a growing and productive microenterprise sector. The pre-loan training and selection will ensure that the most impactful projects get funded, and this is expected to lead to a larger labor demand when the economy starts to recover. Under subcomponent 2.2, innovative programs designed to impart skills valued by the labor market will be piloted and evaluated. Successful practices can potentially generate positive impacts on the supply of skilled labor in the country under the assumption that the GoM will institutionalize and mainstream the innovative approaches.



58. Although Component 3 only absorbs a small portion of the loan, it will support evidence-based policymaking that can have implications on all the three aspects of the labor market. Specifically, the unemployment study under Component 3 will help assess the magnitude and locations of the labor market impacts generated by COVID-19, based on which demand-side, supply-side, or labor market intermediation interventions can be designed to mitigate the effects. Similarly, expansion of Barometer survey will identify key sectors with high labor demand as well as skills gaps. Component 3 will also include an impact evaluation of the pilot active labor market program in sub-component 2, and this can potentially facilitate mainstreaming the practice. Program management and monitoring activities will help amplify the impacts of other components.

59. The impacts of Component 4 can be threefold. Firstly, as many firms are facing cashflow ruptures during the crisis<sup>25</sup>, providing immediate SI contribution relief will help reduce firm closures and layoffs, and also reduce job mobility and the pressure on intermediation services when the economy starts to recover. Secondly, the contribution relief will temporarily increase income for workers, ensure their uninterrupted SI coverage, and help improve the resilience of the workforce. Thirdly, assuming complementary support from the GoM and other development partners will join forces with the Bank loan, the temporary relief to SIF will help improve the sustainability of the fund and its ability to pay out benefits in other forms (such as UI), which can generate significant spillover effects on all the SI participants.

#### E. Rationale for Bank Involvement and Role of Partners

60. Public sector financing of the project is warranted both from an efficiency and an equity perspective, both of which are heightened due to the COVID-19-related crisis. With regard to efficiency arguments, the project will address a number of market failures. Pertinent, up-to-date, and granular information on the labor market is arguably a public good. Without public financing, it is undersupplied by the market. The greater transparency provided by PES can also be considered a public good and therefore warrants public financing. Efficiency in intermediation services has a positive externality in the form of supporting recovery from the crisis and therefore further warrants public financing. Similarly, without public financing of support to micro-entrepreneurship, credit constraints and asymmetric information might prevent potential micro-entrepreneurs from starting their own business. Because opportunities for microenterprise development are expected to ease pressures on labor demand during the time of crisis, a publicly funded temporary interest rate subsidy is also warranted. Furthermore, the subsidized injection of liquidity in the financial system is also expected to improve financial health during the time of crisis. Finally, positive externalities associated with fewer job losses and viability of employers during the current time of crisis warrants public spending on SI contribution. Concerning arguments related to equity, without public financing, effective employment support might only be available for affluent and well-connected individuals. This would reinforce disadvantages for those individuals who are less connected to the labor market to begin with (such as youth, women, the poor, the less educated, and rural-to-urban migrants).

61. The World Bank will add value through five channels. First, it will contribute knowledge on best practices and experiences from pertinent analytical and lending projects from around the world. Second,

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<sup>25</sup> Carranza, Eliana, Thomas Farole, Ugo Gentilini, Matteo Morgandi, Truman Packard, Indhira Santos, and Michael Weber. 2010. "Managing the Employment Impacts of the COVID-19 Crisis: Policy Options for the Short Term." World Bank, Washington D.C.



it will provide predictable, stable, and sustainable financing for active labor market programs to complement the more volatile and generally procyclical funding from Government. Third, the World Bank engagement will focus on areas that currently see relatively little attention from other development partners. Fourth, the World Bank's support will foster the development of a strong M&E framework that will allow precise monitoring of project outputs and outcomes and the design of a rigorous impact evaluation of the activity supported as part of Subcomponent 2.2. Finally, the World Bank implementation and supervision support experience with the MESP will add value to the implementation of this project.

62. No financing of other international financial institutions or bilateral donors is envisaged at this time. Some of the project activities under Component 1 are closely linked with the Korean ODA support to improve the job-matching functionality of PES. The project, as with the MESP, will continue to coordinate with Korean support provided by the Ministry of Employment and Labor of Korea. The World Bank has consulted with relevant development partners such as the Asian Development Bank, the European Union, the *Deutsche Gesellschaft für Internationale Zusammenarbeit*, the International Labour Organization, and the Swiss Agency for Development and Cooperation to ensure that the project responds to the GoM's priorities and that the activities financed by the World Bank and development partners are complementary. Donor coordination and dialogue will continue to be an integral activity also during project implementation. As the Component 4 supports the SI contribution exemption during the crisis and it opens a potential door to attract similar support from other development partners.

#### F. Lessons Learned and Reflected in the Project Design

63. The project draws on the following significant lessons learned from World Bank-financed projects in the area of employment support including the ongoing MESP, analytical background work for this project, and international good practices:<sup>26</sup>

- (a) Project success is primarily contingent on strong country ownership, sustained commitment, implementation capacity, and concerted coordination among the key stakeholders.
- (b) Labor market challenges are multidimensional and need to be addressed in a concerted way, but project design also needs to be simple and components implementable in the country-specific context and institutional setting. The project components will improve employment outcomes in a complementary way and provide relief to workers in response to COVID-19. All the subcomponents are clearly identified with a straightforward implementation structure. The MLSP will be the sole implementing agency, together with the specialized agencies under the ministry that report to it.
- (c) PES can be a cost-effective way to improve employment outcomes, particularly for the

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<sup>26</sup> Analytical background work commissioned for this project includes the following: Gassmann, Franziska, Daphne François, and Lorena Zardo Trindade. 2015. *Improving Labor Market Outcomes for Poor and Vulnerable Groups in Mongolia*. World Bank report. Washington, DC: World Bank; Mongolmaa, Norjinkham. 2016. "Review of Implementation Realities of Mongolia's Employment Promotion Policies and Programs." Unpublished World Bank manuscript; Osborne, Helen. 2016. "Micro-Enterprise Environment in Mongolia." Unpublished World Bank manuscript; Schmillen, Achim. 2016. "Micro-Credits in World Bank Operations - Experience from Mongolia." Unpublished World Bank manuscript; Yadamsuren, Ulziibold. "Review of the Micro-Credits Financed from the Employment Promotion Fund." Unpublished World Bank manuscript.



vulnerable groups.<sup>27</sup> Component 1 will support improvements to on-site PES as well as improvements to the information system and work organization, so that the caseworkers can devote more time in serving the vulnerable population. During the times of crisis featuring low labor demand, PES adds value by finding opportunities for the most vulnerable workers who, in absence of intermediation, would face worse outcomes.

- (d) The impact of microloans is substantially reduced in the absence of business knowledge and confidence and of access to networks and markets.<sup>28</sup> As international research and experience with microloans shows, the integration of financial and nonfinancial support drives outcomes and has been made the centerpiece of Subcomponent 2.1.
- (e) For labor market monitoring and analysis to allow actors to make informed decisions it is critical to: (i) clearly define users of information and their needs; (ii) present information in a form that is clear and intelligible and customized to the needs of different users; and (iii) disseminate information effectively using a variety of products. The design of Subcomponent 3.1 builds on these lessons from earlier World Bank activities.
- (f) Social insurance contribution reliefs can be an effective way for governments to respond to COVID-19 crisis. Such measures rely on existing mechanisms and can be done rapidly. Recognizing this, over 53 countries have used social insurance contribution reliefs and waivers as a policy instrument in response to COVID-19.<sup>29</sup> Component 4 builds on the internationally recognized and common practice to provide immediate relief in response to COVID-19 crisis.

### III. IMPLEMENTATION ARRANGEMENTS

#### A. Institutional and Implementation Arrangements

64. The implementation arrangement of this project will be the same as that of the MESP, with the same implementation agency, Project Steering Committee (PSC), and the PIU. The MLSP will continue to be the sole implementing agency, together with the offices that report to it (the GOLWS and its local offices, the LSPRI, and SIGO). The PSC, headed by the State Secretary, MLSP, established at the MLSP for the MESP, will oversee this project as well. Similarly, the MESP PIU, led by a Project Coordinator, will also be responsible for day-to-day coordination and support for the implementation of this project. The MLSP, through the PIU, will be responsible for overall coordination, results monitoring, and communicating with the World Bank on all fiduciary aspects. The GOLWS will be involved in the implementation of Components 1 and 2. Labor and social welfare offices will be responsible for implementing Component 1 and Subcomponent 2.1 and will be involved in implementing Subcomponent 2.2 on the ground. The PIU will manage the consultancies necessary to implement the labor market studies under Subcomponent 3.1.<sup>30</sup>

<sup>27</sup> Lehmann, Hartmut. 2011. "Active Labor Market Policies: An Introduction into their Rationale and Evaluation (with an Emphasis on Transition Countries)." PowerPoint slides.

<sup>28</sup> Cho, Yoonyoung, and Maddalena Honorati. 2014. *Entrepreneurship Programs in Developing Countries: A Meta Regression Analysis*. Labour Economics.

<sup>29</sup> World Bank, May 22, 2020, "Social Protection and Jobs Response to COVID-19: A Real-Time Review of Country Measures".

<sup>30</sup> The NSO has already begun data collection of the unemployment study under the MESP. This project will finance the



SIGO will be involved in implementing Component 4. The private sector (including employers, private labor exchanges, private employment training providers, and PFIs) will be a closely involved partner. Certain services will be supported by additional temporary hired personnel as needed or contracted to various vendors, including PFIs for the administration of microloans of Subcomponent 2.1.

65. Activities under Subcomponent 2.1 on support to micro-entrepreneurs will be implemented as part of the Government's existing EPF activities using country systems. Advance contribution to the EPF for agreed-upon financing activities will happen annually and will be subject to the World Bank's no-objection (see annex 1 for details). Components 1 and 3 as well as capacity-building, research, monitoring and employment pilot-related activities to support implementation of the EPF under Subcomponent 2.2 will be managed by the PIU.

66. Component 4 activities will rely on SIGO's existing SIF database and its management information system (MIS) for monitoring and reporting purposes. Aimag and District Social Insurance Departments under the oversight of SIGO are responsible for the due diligence verification of the eligible employers and workers. In addition to the Government-approved procedure for implementation of the SI contribution exemption measure, SIGO will introduce some additional internal process guidance for its local offices to follow. SIGO will appoint a technical staff to serve as a focal person for the PIU to liaise with during implementation and to facilitate appropriate monitoring and reporting arrangements.

67. The PSC will be responsible, among others, for: (a) providing overall policy guidance; (b) reviewing project implementation progress and reports; and (c) ensuring interdepartmental coordination of project implementation. It will meet regularly (at least quarterly) and whenever required. In addition to the State Secretary, MLSP, the PSC will include heads of appropriate departments at the MLSP (including the GOLWS). The Head of the PSC will be responsible for overseeing the work of the PIU, in accordance with the strategic direction provided by the PSC and convening meetings of the PSC. Regular project implementation issues will be delegated by the Head of the PSC to the PIU Coordinator, including the submission of requests for the World Bank's no-objection. Whenever required, the Head of the PSC will convene an extended meeting of the PSC that includes key stakeholders from outside the MLSP (such as representatives from employers' federations, the chamber of commerce, trade unions, or the ministry responsible for education) to get their perspectives on the matters discussed.

68. The PIU Coordinator will report to the Head of the PSC. The PIU staff shall be hired by the MLSP under terms of references (TORs) satisfactory to the World Bank. It shall include: (a) a Project Coordinator; (b) a financial management (FM) specialist; (c) a procurement specialist; (d) an M&E specialist; (e) and other staff, including program officers responsible for the different components.

69. The PIU's responsibilities will include, but not be limited to: (a) overall management and implementation support of project activities; (b) coordination and collaboration with the World Bank, the MLSP, other ministries, agencies, and stakeholders; (c) loan and operating accounting; (d) management of consultancy contracts and training; (e) procurement, including all contracting for purchases and the hiring of consultants; (f) project M&E and reporting; (g) contractual relationship with the World Bank; (h) financial record keeping, preparation of FM reports, designated accounts (DAs), and disbursements; (i)

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consultancy for analysis and report writing. Impact evaluation of the skills pilot will be conducted by a private survey/research firm or the NSO under a contract.





reporting responsibilities including the preparation of Financial Monitoring Reports (FMRs), Progress Reports (PRs), Procurement Management Reports (PMRs), and Annual Reports; (j) overseeing of the adherence to environmental and social safeguards policies; and (k) organization of implementation support missions, a midterm review, and a final review.

## B. Results Monitoring and Evaluation Arrangements

70. The project will provide institutional support and training to help the MLSP develop and implement a strong M&E framework and system to gather the data needed for the PDO indicators and intermediate results indicators. The PDO indicators include three outcome-level indicators to document the outcomes of activities supported by the project. A number of intermediate results indicators will be used to track periodic progress toward achieving the PDO.

71. Overall responsibility for project M&E, and reporting will rest with the PIU. PRs showing progress toward achieving the PDOs and outcomes will be submitted to the World Bank and the PSC on a semiannual basis within 45 calendar days. They will be supplemented by detailed FMRs and PMRs in a format agreed upon with the World Bank. The PIU will also consolidate findings in an Annual Report and prepare a comprehensive Completion Report at project completion. Day-to-day M&E duties will be carried out by the PIU's M&E specialist who will coordinate all M&E activities. The M&E specialist will also be responsible for supervising the impact evaluation (with close support from the World Bank) and will work closely with the program officers responsible for the different components.

## C. Sustainability

72. The project will be sustainable because of the GoM's strong political and financial commitment and ownership. This is evident from the high level of involvement and participation during MESP implementation as well as during the emergency project preparation. The participation of the heads of different departments and offices from the MLSP and relevant agencies has ensured continuity during the time of project preparation. The Government's continued commitment to using labor market policies and programs to improve employment outcomes is clear from its intention to keeping the regular funding for EPPs during the project duration and augmenting it through IDA financing.

73. Ensuring sustainability through capacity building was explicitly considered in the design of all project components. Capacity building for M&E, FM, procurement, and environmental and social safeguards activities provided as part of MESP implementation as well as project implementation support by the World Bank will have long-lasting impacts. As part of Component 1, enhanced organization of PES and capacity-building and training measures will enable staff in the local labor and social welfare offices and the GOLWS to better serve a diverse set of clients even after the end of the project.

74. Under Subcomponent 2.1, the micro-entrepreneurship program will enhance more demand-oriented and comprehensive interventions that had been piloted in a small scale under the MESP. This is expected to lead to a more sustainable and effective support to micro-entrepreneurs and employment creation for project beneficiaries. It is, therefore, expected to have a lasting impact on Mongolia's landscape of active labor market programs. The same is expected to be the case with respect to the skills innovation piloting program in Subcomponent 2.2. In addition, this program will foster innovation and learning and can be used as a laboratory for testing future active labor market programs.



75. Subcomponent 3.1 emphasizes building the analytical capacity of various research and statistical organizations of Mongolia. The MESP focused on building the capacity of the LSPRI to serve as a labor observatory through financial and technical support. The MESP allowed the LSPRI to develop a modern instrument to use existing resources and tools to take a more client-oriented approach without creating unsustainable recurring costs. Activities supported by this component will further extend the support to the NSO and other research organizations to implement customized policy-relevant analysis by leveraging the existing research tools and capacity.

76. Component 4 will partially compensate the SIF for the lost contribution revenue, and this will be important to ensure the financial sustainability of the SIF and its ability to pay out short-term benefits such as unemployment benefits during the crisis. This component complements the World Bank Development Policy Loan (Economic Management Support Operation [EMSO] 1-2) series implemented in the recent past that supported government policy reforms to improve the sustainability of the SIF.

#### IV. PROJECT APPRAISAL SUMMARY

##### A. Technical, Economic and Financial Analysis (if applicable)

77. The project introduces relief measures to provide relief and assist recovery from the COVID-19-related crisis in addition to a complementary set of components that addresses significant and chronic market failures both on the demand side and the supply side of the labor market. By focusing on specific constraints that hamper the development of Mongolia's labor market today and carrying out SI contribution exemption measures timely, the project will address the poverty-jobs nexus in response to COVID-19. Some of these economic and social benefits are quantifiable. For others, quantification is more difficult. In cases where a quantification of anticipated costs and benefits is feasible, the analysis follows three approaches. For Component 1, in which the program benefits successive cohorts of jobseekers for several years, the size of the benefit is estimated for each cohort for successive years. The stream of discounted benefits for successive cohorts is compared with the overall cost to compute the internal rate of return (IRR) and the project payback period. For Component 2, which benefits a set number of beneficiaries, the analysis is conducted at the beneficiary level by comparing the expenditure per beneficiary with the discounted stream of benefits they continue to accrue in their lifetime. The costs are defined as the average of total expenses per beneficiary excluding nonattributable costs such as capacity building and training. For Component 4, the ease of financial burdens on SI contributors, which is equivalent to a short-term income gain to workers,<sup>31</sup> will potentially generate multiplier effects on the local economy through increased local demand. These impacts can be obtained by multiplying the amount of transfers with the estimate of the multiplier, while the costs are simply the amount of transfers. For the first two approaches, IRRs are computed for a range of scenarios informed by the literature at large and context-specific information garnered from the LFS data for 2014. This produces a distribution of estimates for the IRRs for each program. The mean, median, and the range of the distribution are discussed. This gives an indication for the precision and robustness of the estimates.

78. Quantifiable earnings effects of the more costly project components are positive and robust to a

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<sup>31</sup> The relief policy has been well publicized in the media, and Mongolia workers are fully aware of the benefits and can readily check their individual payment information through publicly available kiosks or online.



range of assumptions. The results for Component 1 indicate that the costs of the client-centric PES will be recouped through the increased earnings of beneficiaries within 6 to 12 years, yielding an IRR of 6 percent to 12 percent. For the micro-entrepreneurship support under Subcomponent 2.1, the IRR is estimated at between 15 percent and 46 percent and the payback period at two to four years.<sup>32</sup> For Component 4, existing literature<sup>33</sup> shows that local multipliers of income support programs can range from 1.5 to 2.7, and this effect is shown to be robust in recent randomized control trials without even causing price inflation.<sup>34</sup> In addition to the effects on earnings and the directly attributable effects of Component 1, Subcomponent 2.1, and Component 4, the project is expected to affect other important economic and noneconomic outcomes that cannot be as easily monetized. Evidence from other contexts has shown that employment support activities—and/or the jobs that they can lead to—have positive effects on beneficiaries' psychosocial well-being and even their children's well-being. In addition, SI contribution relief will improve employers' cash flow and avoid immediate closures and subsequently keep the employment up for a longer time. Last but not the least, ensuring the continuity of SI coverage to eligible workers at the crisis time and making the SIF fiscally sustainable will have large spillover impacts on all the SI participants in the long-term and create huge social benefits.

79. The project draws on best-practice reform efforts in Mongolia and other countries. The components are aligned with Mongolia's Sustainable Development Vision 2030 and the Government Action Plan. The project was prepared through a consultative process. Innovations—such as comprehensive and client-centric upgrading of the employment services, the integration of an extensive range of nonfinancial services with access to affordable finance for micro-entrepreneurship support—all build on existing efforts and programs already implemented by the MLSP. Moreover, all project components and subcomponents are based on the adaption to the Mongolian situation of international good-practice examples that have demonstrated their effectiveness in different contexts. The SI contribution relief as a response to the COVID-19-related crisis is a common policy intervention that many countries have adopted in the recent months. As of May 22, 2020, over 53 countries have adopted SI contribution relief measures in response to COVID-19.

## B. Fiduciary

### (i) Financial Management

80. As the project implementing agency, the MLSP will be responsible for the overall project oversight and the PSC for the current MESP will be maintained at the MLSP to provide overall guidance for this project. The PIU for the MESP project under the MLSP will carry out day-to-day implementation and

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<sup>32</sup> Evaluations of micro-entrepreneurship support show wide and varying returns. The returns to capital invested in microbusiness are sometimes found to be considerably higher than documented under the conservative assumptions used here. For instance, an evaluation of a grant program in Sri Lanka finds average marginal returns to capital of 55 percent to 63 percent per year. De Mel, Suresh, David McKenzie, and Christopher Woodruff. 2009. "Returns to Capital in Microenterprises: Evidence from a Field Experiment." *Quarterly Journal of Economics*.

<sup>33</sup> See studies such as Sadoulet, Elisabeth, Alain De Janvry, and Benjamin Davis. 2001 "Cash Transfer Programs with Income Multipliers: PROCAMPO in Mexico." *World Development*. Thome, Karen, Mateusz Filipowski, Justin Kagin, J. Edward Taylor, and Benjamin Davis. 2013 "Agricultural Spillover Effects of Cash Transfers: What does LEWIV have to say?" *American Journal of Agricultural Economics*.

<sup>34</sup> Egger, Dennis, Johannes Haushofer, Edward Miguel, Paul Niehaus and Michael Walker. 2019 "General equilibrium effects of cash transfers: experimental evidence from Kenya" (No. w26600). *National Bureau of Economic Research*.



coordination of the project activities. The project's FM arrangements, including the handling of World Bank credit proceeds through the project's Designated Account (DA), will be managed by the PIU with proper approvals from both the MLSP and the Ministry of Finance (MOF). A separate DA will be used for this project as well for advancing funds and disbursing against eligible expenditures under the project. In addition to using a separate DA for this project, accounting and financial reporting under the project will also be separate from those of the MESP project.

81. The World Bank FM team conducted an FM assessment on the MLSP based on the World Bank Directive: Financial Management Manual for the World Bank Investment Project Financing Operations and has concluded that the existing FM arrangements that will be applied to this project are acceptable and meet the World Bank's requirements. The residual FM risk for the project is assessed Substantial. This is mainly a reflection of the current risk assessment yielding Substantial risk rating for the MESP due to (a) partial use of the country systems through the Government's own EPF; (b) complicated funds flow arrangement for the project including for Component 4 which has not yet been implemented under the MESP; and (c) involvement of multiple specialized agencies under the MLSP including the GOLWS and its aimag and district labor social and welfare offices, municipality labor department in Ulaanbaatar, and SIGO in implementing certain project activities. The specific mitigating measures for these and other detailed project FM arrangements have been described further in the FM section under annex 1 of the Project Appraisal Document (PAD).

## **(ii) Procurement**

82. MLSP. The project implementing agency will be carrying out the procurement activities with the support of the PIU established for the MESP and this project. The PIU will be a working unit without any independent legal status and reporting to the MLSP. Consequently, the procurement documents and contracts will be the responsibility of and signed by the MLSP. The PIU staff members will not be considered as civil servants but are hired as consultants by the MLSP and financed by this project.

83. Procurement for the proposed activities shall be carried out in accordance with the World Bank's 'Procurement Regulations for IPF Borrowers: Procurement in Investment Project Financing for Goods, Works, Non-Consulting and Consulting Services' dated July 2016 (revised in November 2017 and August 2018). The project is also subject to the World Bank's Anticorruption Guidelines, dated October 15, 2006, revised in January 2011, and as of July 1, 2016.

84. According to the Procurement Regulations, the MLSP has developed a Project Procurement Strategy for Development (PPSD) and a Procurement Plan covering the first 18 months of the project. The PPSD is a living document that should be regularly updated during the project implementation period to provide necessary justifications for procurement arrangements, Procurement Plans, and their updates. For each contract financed by IDA, the procurement method, market approach, cost estimate, World Bank review requirements, and timeframe for implementation shall be agreed between the borrower and IDA and duly reflected in the most updated project Procurement Plan. The project will use the World Bank's Systematic Tracking of Exchanges in Procurement (STEP) online tool for planning and tracking of all procurement transactions.

85. The procurement capacity of the MLSP remains low. However, the project is not going to be procurement intensive as majority of the project resources will be allocated directly to the SIF as



temporary relief in response to the COVID-19 crisis. Therefore, majority of contracts will be of relatively small value and of not much complexity. The assessment identified some risks that would potentially cause procurement delays or inappropriate procurement decisions. Details of the key risks and the corresponding mitigation measures are discussed in annex 1 and recorded in the Procurement Risk Management Assessment System (P-RAMS) of the World Bank.

**C. Legal Operational Policies**

	<b>Triggered?</b>
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

**D. Environmental and Social**

**(i) Environmental**

86. The overall environmental risk is Moderate because the anticipated impacts from project activities are mostly localized, limited, or temporary and can be avoided or minimized with readily available measures. No long-term, large-scale, and/or irreversible negative impacts are expected. An Environmental and Social Management Framework (ESMF) will be updated based on the ESMF prepared under the MESP.<sup>35</sup> The ESMF will guide the environmental and social screening, subsequent assessment of subprojects/activities, and management and monitoring of the mitigation measures for environmental and social impacts of subprojects/activities during implementation.

87. The project includes both physical and non-physical activities. Component 1 involves renovation of the GOLWS in the form of small-scale interior remodeling. The potential environmental impacts from short-term remodeling work include noise, dust, and solid waste generation, which can be mitigated by incorporating the environmental code of practices for civil work provided in the ESMF. Before planning the GOLWS renovation, asbestos site due diligence will be performed in line with the GIIP. In case existing buildings to be remodeled under the project have asbestos-containing materials, asbestos hazards should be identified, and a risk management plan should be adopted that includes disposal techniques and occupational health and safety protection measures. For this, the ESMF refers to the World Bank Group Good Practice Note on Asbestos: Occupational and Community Health Issues dated May 2009.

88. There are some downstream environmental issues to be considered for microenterprises receiving financial (in the form of microloans) and non-financial (for example, training and alumni networks) support under Component 2. The project will not have direct investment to construct, expand or modernize the premises of existing or new microenterprises. Microloans will be approved solely for business purposes, typically funding low-risk activities such as the purchase or repair of equipment, the purchase of materials, investment in quantity or quality of employment, or entering into new markets. The project will not finance microenterprises that pose substantial environmental risks. Beneficiaries will

<sup>35</sup> Due to emergency project preparation considerations, the ESMF will be finalized before the commencement of project activities.



be mainly in the commerce, service and small-scale manufacturing sectors, such as tailoring, carpentry, shoemaking, vehicle repair/maintenance, internet cafés/IT services, hair salons, and food vendors. Depending on the exact sector, some microenterprises in these sectors may produce noise, emission, waste and congestion. Safeguarding the well-being of workers and surrounding community may also be a concern. The ESMF includes procedures to screen the environmental impacts of microbusinesses, to exclude microenterprises that are ineligible, and to identify the need for mitigation measures when appropriate. The ESMF provides general and industry-specific environmental, health, and safety guidelines for common types of microenterprises identified during project preparation. Additional industry-specific environmental, health, and safety guidelines for microenterprises identified during project implementation will be added to the ESMF as needed.

89. The ESMF will be updated to refer to the World Bank Group and the WHO's guidance on COVID-19 to prevent or minimize the spread of COVID-19 in workplace or communities. The borrower will monitor the situation and prepare an emergency response plan for COVID-19 spread when needed.

90. Key stakeholders identified for the project include: (a) project beneficiaries – mainly jobseekers, micro-entrepreneurs, eligible workers and firms enrolled under the mandatory SI scheme; (b) other project-affected people—renovation workers, consultants, and communities that may be affected by the microenterprises operation activities, and so on; and (c) government authorities and financial institutions that participate in the project implementation. The key stakeholders will be consulted, and the comments and opinions of the stakeholders will be considered and incorporated as appropriate into the mitigation measures of the ESMF. The final ESMF will be publicly disclosed on the borrower's and the World Bank's website. The MESP PIU, led by a Project Coordinator, will be responsible for overseeing the compliance of safeguard requirement in this project. The Bank team will provide ongoing technical guidance and support.

91. As the project implementing agency, the MLSP, has demonstrated its adequate capacity to deal with safeguard policies and issues during the MESP implementation, with satisfactory performance by the end of 2019. The MLSP has hired three national consultants (two architects and one supervising engineer) for physical renovation work. Requirements in the MESP's ESMF, and the World Bank's Good Practice Note on Asbestos: Occupational and Community Health Issues were an integral part of the TOR and contracts signed with consultants and construction companies. The MLSP's local supervising engineers conduct regular compliance monitoring. The MESP has also developed and disseminated microloan support program pamphlets containing relevant ESMF information and has organized capacity building and trainings among aimag and district labor division officials on key obligations and steps to follow environmental and social impact screening process. The MESP PIU, led by a Project Coordinator, will be responsible for overseeing the compliance of safeguard requirement in this project. The World Bank team will provide ongoing technical guidance and support as well.

92. **Although the climate-related risk to the outcome of the project is low, the project seeks to help reduce climate change vulnerability from the extreme weather and climate-related disasters.** Mongolia has high fluctuations of temperature that varies dramatically throughout the year and low precipitation that some regions do not have rainfall at all. Historically, maximum temperatures have peaked at around 24°C in July, while January minimum temperatures drop to around -28°C. Annual precipitation rarely



exceeds 400 mm and is often much lower in the south and central desert and steppe regions.<sup>36</sup> Droughts and dzuds (extremely harsh winters) are a recurring natural hazard that results in negative consequences on their economy and contributes to urban migration.<sup>37</sup> Climate change is expected to exacerbate such extreme weather events including droughts, flash-floods, and dzuds.<sup>38</sup> The project direct beneficiaries are vulnerable to these shocks which usually create a negative impact on their livelihood. For instance, it is more challenging for the jobseekers to make an informed-decision on job-taking or seasonal migration and for the micro-entrepreneurs to maintain their small businesses under extremely weather. The project will take the climate factors into consideration in providing services through the PES (Component 1) and for selected micro-entrepreneurs (Component 2). The capacity-building activities will raise awareness among the jobseekers and micro-entrepreneurs of climate-related knowledge and climate-smart technologies. The contribution to the SIF will also support the eligible workers build resilience to climate related shocks as well as COVID-19. The emergency support (Component 4) will help them build savings and diversify the coping strategies. These measures will enhance the capacity of targeted beneficiaries to prepare for and cope with the climate-related disasters and emergencies.

(ii) Social

93. The project is an extension and upscaling of an ongoing project. The project is expected to have positive social impacts for the intended beneficiaries, including: (a) 'citizens having difficulty finding employment' as defined in the Employment Promotion Law; (b) young people of ages 18 to 34; (c) TVET, college, or university graduates; and (d) poverty status (for instance, measured by PMT scores). Microloans under Subcomponent 2.1 will be accessible to either jobseekers or microentrepreneurs with selection criteria balancing vulnerability and likelihood of benefiting from the program. The project will also seek to reduce gender disparities in the labor market. About 1,400 beneficiaries are expected be supported through this component, with loan amounts of MNT 5 million to MNT 10 million (US\$1,800 to US\$3,500) per beneficiary. To ensure coverage of vulnerable populations with potentially higher credit risks, access to smaller loans (in a range of MNT 3 million to MNT 5 million) will be granted at the discretion of the Selection Panel based on an applicant's business experience (and/or clear demonstration of a sound business plan), likelihood of success of the enterprise, and vulnerability.

94. Component 4 directly supports the relief measure introduced by the GoM to provide SI contribution exemption for six months (from April 1, 2020, to September 30, 2020), for eligible employers and workers under the mandatory contribution schemes. Eligible workers under the mandatory scheme includes those working with employers affected by the COVID-19 crisis and excludes workers in the public sector as well as those working in publicly funded entities. This component provides a relief transfer on behalf of about 150,000 (or as many as possible) eligible workers and their employers for a duration of one month. Project beneficiaries for this component will be from select aimags and districts based on the most recent estimate of poverty rate, expected number of potential beneficiaries, and budget.

95. No physical relocation of people, involuntary resettlement, or acquisition of private lands is expected. The PIU has developed a preliminary Stakeholder Engagement Plan (SEP). Due to growing threat of COVID-19 in the country, combined with decision of National Emergency Commission dated April 28,

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<sup>36</sup> See <https://climateknowledgeportal.worldbank.org/country/mongolia/climate-data-historical>

<sup>37</sup> See <https://climateknowledgeportal.worldbank.org/country/mongolia/vulnerability>

<sup>38</sup> USAID. 2017. "Climate Risk Profile: Mongolia".



2020 to extend the country's state of partial heightened preparedness and associated measures till May 31, no public consultation was possible. The draft SEP and ESCP were disclosed on MLSP's website on May 21, 2020 and consulted with relevant officials of the MLSP, GOLWS and PIU. Phone based consultations were carried out by the PIU with several local labor and welfare offices. Comments and feedback from the MLSP and PIU have been incorporated in the draft SEP, and an updated version in English and Mongolian was disclosed on MLSP's website on May 27, 2020. The final SEP and ESCP were disclosed on the Bank's website on June 2, 2020. The SEP objective is to define a program for stakeholder engagement, including public information disclosure and consultation, throughout the entire project cycle. It also outlines the ways in which the project team will communicate with stakeholders and includes a mechanism by which people can raise concerns, provide feedback, or complain about the project and any activities related to the project. The SEP is also prepared in a manner consistent with the ESS7 (Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities) to enable targeted meaningful consultation and implement measures to increase effective participation of Kazakh ethnic minority community and microenterprises in the project activities; similarly, other potentially vulnerable people will be integrated into the stakeholder analysis during the updating of the preliminary SEP.

96. The ESMF will include procedures to screen the environmental impacts of micro businesses, to eliminate applications that are ineligible, and to identify the need for mitigation measures when appropriate. The screening template will be expanded to include questions related to identifying any social risk in the selection process. The project-level grievance redress mechanism (GRM) will be operationalized and the M&E specialist will act as the focal point. The project website will have a feedback/grievance tab where project-affected people may submit any grievance, concerns, or feedback with regard to project activities. The PIU will prepare public awareness materials on purpose and process of GRM for project and disseminate to affected stakeholders. Also, project PRs to be sent to the World Bank task team will have to include a section on the implementation status of GRM (data, resolution process, resolution timing, and so on).

97. **Citizen engagement.** The project will conduct public consultations according to the SEP in order to increase awareness of all stakeholders and collect their feedback throughout the project cycle. The Results Framework contains two indicators measuring beneficiary satisfaction: (a) satisfaction rating among beneficiaries of upgraded PES collected through satisfaction surveys with a sample of beneficiaries; and (b) satisfaction rating among recipients of the micro-loans collected through satisfaction surveys among all beneficiaries of Subcomponent 2.1. The project will monitor the progress and report the survey results every year throughout the implementation. The feedback received from the beneficiary surveys and stakeholder engagements will be incorporated as appropriate into the design of service packages provided to microentrepreneurs and PES beneficiaries.

## V. GRIEVANCE REDRESS SERVICES

98. Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be





submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service>. For information on how to submit complaints to the World Bank Inspection Panel, please visit [www.inspectionpanel.org](http://www.inspectionpanel.org).

## VI. KEY RISKS

99. Key risks have been identified and rated in the Systematic Operations Risk-Rating Tool (SORT) (see the datasheet page 3). The overall risk for the project before mitigation measures is rated as Substantial. Key risks are the political and governance risk, the macroeconomic risk, the risk related to the institutional capacity for implementation, fiduciary risk, and stakeholder risk.

100. **Political and governance risk is High.** Mongolia's track record in implementing institutional reforms; the complex and, at times, volatile political and institutional environment; and the high turnover of government officials—particularly with the next parliamentary election due in June 2020—might affect the concerted implementation of project components necessary to maximize the project's development impact. With regard to risk mitigation measures, the World Bank task team will formally document all issues discussed and agreements reached and emphasize broad and frequent consultations and communication with technical counterparts but also political decision-makers, beneficiaries, and other stakeholders (including employers' associations, labor unions, and nongovernmental organizations [NGOs]). This will promote continuity, broad-based buy-in, and support for the implementation of all planned activities.

101. **Macroeconomic risk is Substantial.** The outbreak of COVID-19 worldwide has already led to reduced capital flows, fallen commodity prices, and reduced global demand for Mongolian exports. Strategic sectors such as mining and transportation sectors have seen a decline in output. Industrial production has contracted in the first quarter. Mobility restrictions and other containment measures are putting further pressure on local firms depressing output in the service sector. As the crisis deepens, the country will face more severe negative growth consequences, and these are likely to be translated to increased layoffs, fewer jobs, and lower wages for the Mongolian workforce. In this context, risk mitigation will consist primarily of designing the project in a way that facilitates job creation, improves labor market efficiency, and supports economic recovery and workers' social protection. In the meantime, considerations should be given to strengthen the MLSP's capacity to flexibly respond to future downturns in labor demand.

102. **Risk related to the institutional capacity for implementation is Substantial.** The MLSP is the only implementing agency for the MESP as well as this project. While some of the MLSP's relevant staff have experience in implementing World Bank lending operations, the MLSP as an institution has limited experience. Furthermore, while the same PIU and PSC managing the MESP and this project has its advantages, it also presents an implementation risk resulting from managing two separate projects, including maintaining separate documentations, budgets, reporting, and compliance requirements (Environmental and Social Framework [ESF] and safeguards) for essentially same/similar activities. Key steps to mitigate the ensuing risks include the following elements. First, the project will use the same



implementation arrangements (such as the PSC and PIU) that seek to minimize the resulting risks. Second, many of the more complex activities financed through the project will build on existing government initiatives and include capacity-building, training, and similar elements to improve the implementation capacity of the MLSP. Third, as part of implementation support, the World Bank will emphasize capacity-building activities by staff in the Mongolia country office and visiting missions, in particular regarding M&E, FM, procurement activities, safeguard policies, and the ESF.

103. **Stakeholder risk is rated Substantial.** Project stakeholders and interest groups are broad, including vocal, well-established civil society organizations (employers' associations, labor unions, and other NGOs), politicians, media, private sector, and the working-age population. Reputational risk for the World Bank may arise due to potential criticism from these groups in the following areas: (a) instances involving corruption and misuse of public funds (EPF and SIF) in the past, (b) increased debt burden to the country as a result of the project, and (c) misunderstanding stemming from project design and its relevance in the time of the COVID-19 crisis. The project will manage this risk through targeted communication and outreach efforts with clear messages on the importance of the project and project-related activities for Mongolia.

104. **Fiduciary risk for the project is rated Substantial.** This is mainly a reflection of the current risk assessment yielding Substantial risk rating for the MESP due to (a) partial use of the country systems through the Government's own EPF; (b) complicated funds flow arrangement for the project including for Component 4 which has not yet been implemented under the MESP; (c) involvement of multiple specialized agencies under the MLSP including the GOLWS and its aimag and district labor social and welfare offices, municipality labor department in Ulaanbaatar and SIGO in implementing certain project activities; and (d) low capacity to conduct complex procurement. The specific mitigating measures are described in detail in annex 1. Such measures include capacity building of relevant entities on FM and procurement issues, close monitoring and supervision by FM and procurement specialists based in the region, and building appropriate arrangements to ensure that project funds are used for their intended purpose.

105. Large volumes of personal data, personally identifiable information and sensitive data are likely to be collected and used in connection with the management of the COVID-19 outbreak under circumstances where measures to ensure the legitimate, appropriate and proportionate use and processing of that data may not feature in national law or data governance regulations, or be routinely collected and managed in health information systems. To the extent feasible, the Project will incorporate good international practice for dealing with such data in such circumstances. Such measures may include, by way of example, data minimization (collecting only data that is necessary for the purpose), data accuracy (correct or erase data that are not necessary or are inaccurate), use limitations (data are only used for legitimate and related purposes), data retention (retain data only for as long as they are necessary), informing data subjects of use and processing of data, and allowing data subjects the opportunity to correct information about them.

106. **The overall project risk rating is Substantial.** Because of these risks, as well as the added risk of COVID-19 adversely affecting the outcomes the project seeks to improve, the project risk is rated Substantial.



**VII. RESULTS FRAMEWORK AND MONITORING**

**Results Framework**

**COUNTRY: Mongolia**

**Mongolia Emergency Relief and Employment Support Project**

**Project Development Objectives(s)**

The project development objective (PDO) is to provide jobseekers and micro-entrepreneurs in Mongolia with improved access to labor market opportunities and to provide temporary relief to eligible workers in response to the COVID-19 crisis.

**Project Development Objective Indicators**

Indicator Name	PBC	Baseline	End Target
<b>Beneficiaries receiving labor intermediation services in an upgraded labor and social welfare office</b>			
Beneficiaries receiving labor intermediation services in an upgraded labor and social welfare office (Number)		0.00	40,000.00
Beneficiaries receiving labor intermediation services in an upgraded labor and social welfare office (female) (Number)		0.00	20,000.00
<b>Beneficiaries of micro-entrepreneurship support whose microenterprise is still in business, at least</b>			
Beneficiaries of micro-entrepreneurship support whose microenterprise is still in business, at least 6 months after receiving a micro-loan (Percentage)		0.00	60.00
Beneficiaries of micro-entrepreneurship support whose microenterprise is still in business, at least 6 months after receiving a micro-loan (female) (Percentage)		0.00	60.00



Indicator Name	PBC	Baseline	End Target
<b>Beneficiaries who received temporary relief from their social insurance contributions</b>			
Beneficiaries who received temporary relief from their social insurance contributions (Number)		0.00	150,000.00
Beneficiaries who received temporary relief from their social insurance contributions (female) (Number)		0.00	70,000.00

**Intermediate Results Indicators by Components**

Indicator Name	PBC	Baseline	Intermediate Targets			End Target
			1	2	3	
<b>Supporting client-centric public employment services</b>						
Labor and social welfare offices with comprehensive upgrades completed (Number)		0.00	0.00	6.00	20.00	30.00
Beneficiaries satisfied with the services provided by the upgraded PES (Percentage)		0.00	0.00	60.00	70.00	80.00
<b>Strengthening select active labor market programs</b>						
Beneficiaries of micro-entrepreneurship support program (Number)		0.00	0.00	500.00	1,200.00	1,400.00
Beneficiaries of micro-entrepreneurship support program (female) (Number)		0.00	0.00	230.00	540.00	630.00
Volume of World Bank funding for lines of credit (Amount(USD))		0.00	0.00	2,000,000.00	4,000,000.00	4,000,000.00
Volume of micro-loans issued to		0.00	0.00	1,900,000.00	3,850,000.00	3,850,000.00



Indicator Name	PBC	Baseline	Intermediate Targets			End Target
			1	2	3	
end borrowers financed by the project (Amount(USD))						
Beneficiaries satisfied with project financed micro-entrepreneurship support (Percentage)		0.00	0.00	70.00	80.00	80.00
Innovative skills promotion pilot conducted (Yes/No)		No	No	No	Yes	Yes
<b>Facilitating labor market monitoring and analysis and project management</b>						
Unemployment study released (Yes/No)		No	No	Yes	Yes	Yes
Skills demand study released (Yes/No)		No	No	Yes	Yes	Yes
<b>Providing temporary relief to eligible workers in response to COVID-19</b>						
Volume of social insurance contribution relief provided on behalf of mandatory contributors (Amount(USD))		0.00	10,000,000.00	10,000,000.00	10,000,000.00	10,000,000.00

Monitoring & Evaluation Plan: PDO Indicators					
Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
Beneficiaries receiving labor intermediation services in an upgraded labor and social welfare office	number of beneficiaries who have received labor intermediation services in an upgraded labor and	Bi-annual	MLSP administrative data		MLSP



	social welfare office where comprehensive upgrades encompass (i) streamlined work organization AND (iii) capacity strengthening through technical assistance and staff training.				
Beneficiaries receiving labor intermediation services in an upgraded labor and social welfare office (female)	number of female beneficiaries who have received labor intermediation services in an upgraded labor and social welfare office where comprehensive upgrades encompass all of (i) streamlined work organization AND (ii) capacity strengthening through technical assistance and staff training.	Bi-annual	MLSP administrative data		MLSP
Beneficiaries of micro-entrepreneurship support whose microenterprise is still in business, at least 6 months after receiving a micro-loan	Percentage of beneficiaries of micro-entrepreneurship support whose microenterprise is still in business, at least 6 months after receiving a micro-loan. Indicator is annual.	Annual	MLSP administrative data Contracted research or survey firm if necessary		MLSP
Beneficiaries of micro-entrepreneurship support whose microenterprise is still in business, at least 6 months after receiving a	Percentage of female beneficiaries of micro-entrepreneurship support whose microenterprise is	Annual.	MLSP administrative data Contracted		MLSP



micro-loan (female)	still in business, at least 6 months after receiving a micro-loan. Indicator is annual.		research or survey firm if necessary		
Beneficiaries who received temporary relief from their social insurance contributions	Number of eligible workers under the mandatory contribution scheme that receive payment relief for a period of at least 1 month under the project. Indicator is cumulative.	Once (October 2020)	SIGO monthly report SIF financial statements		MLSP
Beneficiaries who received temporary relief from their social insurance contributions (female)	Number of eligible female workers under the mandatory contribution scheme that receive payment relief for a period of at least 1 month under the project. Indicator is cumulative.	Once (October 2020)	SIGO monthly reports SIF financial statements		MLSP

**Monitoring & Evaluation Plan: Intermediate Results Indicators**

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
Labor and social welfare offices with comprehensive upgrades completed	Number of labor and social welfare offices with comprehensive upgrades completed where comprehensive upgrades encompass all of (i) streamlined work	Bi-annual	MLSP administrative data		MLSP



	organization including modernized LMIS and (ii) capacity strengthening through technical assistance and staff training. Indicator is cumulative.				
Beneficiaries satisfied with the services provided by the upgraded PES	Percentage of beneficiaries who report being somewhat or very satisfied in a survey conducted after they receive services from PES.	Annual	Beneficiary satisfaction surveys		MLSP
Beneficiaries of micro-entrepreneurship support program	This indicator measures the number of individual beneficiaries covered by the micro-entrepreneurship support program. This includes those who have completed the pre-loan services, received the loan, and have completed post-loan support program. Indicator is cumulative and excludes beneficiaries covered under MESP.	Bi-annual	MLSP administrative data		MLSP
Beneficiaries of micro-entrepreneurship support program (female)	This indicator measures the number of individual female beneficiaries covered by the micro-entrepreneurship support program. This includes those who have completed pre-loan program, received a	Bi-annual	MLSP administrative data		MLSP





	microloan from PFIs, and completed post-loan financial training.				
Volume of World Bank funding for lines of credit	Volume of World Bank funding for lines of credit disbursed to participating financial institutions. Indicator is cumulative and excludes lines of credit disbursed under MESP.	Bi-annual	EPF account statement		MLSP
Volume of micro-loans issued to end borrowers financed by the project	Volume of micro-loans issued to end borrowers. Indicator is cumulative but excludes micro-loans issued under MESP.	Annual	PFIs reports MLSP administrative database		MLSP
Beneficiaries satisfied with project financed micro-entrepreneurship support	Percentage of beneficiaries who report being somewhat or very satisfied in a survey conducted after they receive micro-entrepreneurship support.	Annual	Beneficiary satisfaction surveys	Hire survey firms	MLSP
Innovative skills promotion pilot conducted	An innovate skills promotion pilots is conducted with a design agreed upon by the World Bank. The indicator will count as complete when the implementation of the pilot is complete, baseline survey and mid-line survey completed.	once (year 3)	Project MIS record on pilot implementation		MLSP



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Unemployment study released	Completed study released and published in MLSP website	Once (in year 2)	MLSP website		MLSP
Skills demand study released	The study analyzing data collected from extension of Barometer survey to include occupational structure and skills demand modules completed and study released in MLSP website.	Once (year 2)	MLSP website		MLSP
Volume of social insurance contribution relief provided on behalf of mandatory contributors	This indicator measures the volume of transfers to SIF for SI contribution relief for those enrolled in the mandatory scheme. Indicator is cumulative.	Once (October 2020)	SIGO monthly reports SIF account statements		MLSP

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ANNEX 1: Implementation Arrangements and Support Plan

**COUNTRY: Mongolia**

**Mongolia Emergency Response and Employment Support Project**

**A. Project Institutional and Implementation Arrangement**

1. The implementation arrangement of this project will be the same as that of the MESP, with the same implementation agency PSC, and the PIU. This arrangement will help harmonize and coordinate activities across the two projects and leverage the experience and expertise developed through the implementation of the MESP.
2. The MLSP will be the sole implementing agency, together with its specialized agencies operating under the MLSP. That includes the GOLWS and its aimag and district labor social and welfare offices, and the municipality labor department in Ulaanbaatar (that are all involved with PES), the LSPRI responsible for M&E and labor market information and analysis; and SIGO responsible for managing the SIF. The PSC headed by the State Secretary established at the MLSP for the MESP will oversee this project as well. Similarly, the MESP PIU led by a Project Coordinator, will also be responsible for day-to-day implementation and coordination for this project.
3. The MLSP, through the PIU, will be responsible for overall coordination, results monitoring, and communicating with the World Bank on all fiduciary aspects. The GOLWS will be involved in the implementation of Components 1 and 2. Labor and social welfare offices will be responsible for implementing Component 1 and Subcomponent 2.1 and will be involved in implementing Subcomponent 2.2 on the ground. The LSPRI will be the primary implementing agency for Subcomponent 3.1. SIGO will be involved in Component 4. The private sector (including employers, private labor exchanges, private employment training providers, and PFIs) will be a closely involved partner. Certain services will be contracted to various vendors, including PFIs for the administration of microloans of Subcomponent 2.1
4. Support to entrepreneurs under Subcomponent 2.1 will be implemented as part of the Government's existing EPF activities; hence essentially using country systems. Advances to the EPF for financing agreed upon activities will be made upon request from the EPF. Components 1 and 3 and capacity-building, research, and monitoring activities as well as piloting of innovative ideas and tools under Component 2 will be managed by the PIU.
5. Implementation of Component 4 activities will rely on SIGO for its existing SIF database and its MIS functions for monitoring and reporting purposes. Aimag and District Social Insurance Departments under the oversight of SIGO are responsible for the due diligence verification of the eligible employers and workers. In addition to the government-approved procedure for implementation of the SI contribution exemption measure, SIGO will introduce some additional internal process guidance for its local offices. SIGO will appoint a technical staff to serve as a focal person for the PIU to liaise with for implementation as well as monitoring arrangements. The Director General of the Social Policy and



Planning Department of the MLSP, who oversees the government relief program and is a member of the PSC, will also oversee the implementation of the component.

6. The PSC will be responsible, among others, for (a) providing overall policy guidance, (b) reviewing project implementation progress and reports, and (c) ensuring interdepartmental coordination of project implementation. It will meet regularly (at least quarterly) and whenever required. In addition to the State Secretary, MLSP, the PSC will include heads of appropriate departments at the MLSP. The Head of the PSC will be responsible for (a) overseeing the work of the PIU in accordance with the strategic direction provided by the PSC and (b) convening meetings of the PSC. Regular project implementation issues will be delegated by the Head of the PSC to the PIU Coordinator, including the submission of requests for the World Bank's no-objection. Whenever required, the Head of the PSC will convene an extended meeting of the PSC that includes key stakeholders from outside the MLSP (such as representatives from employers' federations, the chamber of commerce, trade unions, or the ministry responsible for education) to get their perspectives on the matters discussed.

7. The PIU Coordinator will report to the Head of the PSC. The PIU staff shall be hired by the MLSP under TORs satisfactory to the World Bank. It shall include (a) a Project Coordinator; (b) an FM specialist; (c) a procurement specialist; (d) an M&E specialist; (e) and other staff, including program officers responsible for the different components.

8. The PIU's responsibilities will include, but not be limited to, (a) overall management and implementation support of project activities; (b) coordination and collaboration with the World Bank, the MLSP, other ministries, agencies, and stakeholders; (c) loan and operating accounting; (d) management of consultancy contracts and training; (e) procurement, including all contracting for purchases and the hiring of consultants; (f) project M&E and reporting; (g) contractual relationship with the World Bank; (h) financial record keeping, preparation of FM reports, DAs, and disbursements; (i) reporting responsibilities including the preparation of FMRs, PRs, PMRs, and Annual Reports; (j) overseeing of the adherence to ESF policies; and (k) organization of implementation support missions, a midterm review, and a final review.

9. A Project Operations Manual (POM) will be developed and adopted by September 15, 2020, and it will be updated from time to time by the MLSP with the prior written agreement of the World Bank. The project activities will be implemented in accordance with the POM. The content will include, but not be limited to, the description of (a) institutional and implementation arrangements; (b) procurement procedures and standard procurement documentation; (c) FM, disbursement arrangements, and audit procedures; (d) criteria for eligible expenditures; (e) the project performance indicators; (f) the ESF; (g) M&E arrangements; and (h) project reporting. An implementation manual for the LMPPP under the EPF shall provide essential details on implementation aspects and project sub-components implemented through the EPF. The EPF/LMPPP implementation manual adopted under the MESP has included these detailed regulations that could be followed for the entire EPF operations. The EPF/LMPPP manual will be updated under this project before commencement of the activities under Subcomponent 2.1.

## **B. Financial Management**

10. The FM team assessed the adequacy of the current FM arrangements and capacity of the MESP to determine whether they would be acceptable for implementation of this project. The assessment,



based on the World Bank Directive: Financial Management Manual for the World Bank Investment Project Financing Operations, concluded that the project meets the World Bank FM requirements. The current FM arrangements in place for the MESP are acceptable by the World Bank and are deemed adequate for implementing the project operation and for providing reasonable assurance that the proceeds of the IDA credit under the project are used for the purposes for which the credit is provided. The FM arrangements described in this section reflect the latest FM systems put in place for implementing the MESP that will also be used for the implementation of this project.

11. The MLSP will be responsible for implementing the project. It will manage the World Bank credit proceeds from the project and oversee the project DA together with the MOF. The current PIU of the MESP will be responsible for the implementation and management of the project as the project activities will be mainly a continuation, and, in certain areas, expansion of the activities being implemented under the MESP.

12. FM risk is the risk that the credit proceeds will not be used for the purposes intended and is a combination of country, sector, and project-specific risk factors. The FM assessment did not identify any major risks associated with the current implementation arrangements that did not exist under the MESP. The PIU has built up sufficient knowledge and experience with regard to implementing the World Bank-financed MESP and will be asked to continue carrying out the same activities under this project.

13. The residual FM risk for this project is assessed as Substantial. This is mainly a reflection of the current risk assessment yielding a Substantial risk rating for the MESP due to (a) use of the country systems through the Government’s own EPF; (b) new funds flow arrangement for the newly added Component 4 which has not yet been implemented under the MESP; and (c) involvement of multiple specialized agencies under the MLSP including the GOLWS and its aimag and district labor social and welfare offices, municipality labor department in Ulaanbaatar, and SIGO in implementing certain project activities. The World Bank FM team will closely support the PIU, and the MLSP in general, in mitigating these and other FM-related issues as needed.

14. **Detailed risk assessment and mitigation measures.** The FM assessment identified the risks and corresponding mitigating measures detailed in Table 1.1.

**Table 1.1: Risk Assessment and Mitigation Measures**

<b>Risk</b>	<b>Risk Rating before Mitigating Measures</b>	<b>Incorporated Risk Mitigating Measures</b>	<b>Risk Rating after Mitigating Measures</b>	<b>Conditions of Effectiveness or Disbursement</b>
<b>Inherent Risk</b>				
<b>Country level</b> Potential changes in government officials involved in project activities due to the upcoming election cycle and possible impact on PIU and FM staffing.	High	Collaborate with the new or re-elected government and its officials to ensure that project continuity is maintained.	High	



<p><b>Entity Level</b> Significant reliance will be placed on the GOLWS that oversees the EPF. Reliance on PFIs and SIGO for supporting implementation of Components 2 and 4, respectively.</p>	High	The project’s implementing agency is the MLSP, which has a running experience of implementing the World Bank-financed MESP. While the MLSP (and a PSC under the MLSP) exercise general oversight for the project, the MESP PIU will be responsible for the day-to-day activities and liaising with the other government agencies. The PIU has the necessary personnel to get the job done. The World Bank task team will continue to provide ongoing support as needed. The project will receive through the MLSP relevant reports from GOLWS and SIGO relating to activities under EPF and SIF, respectively, to ensure efficacy of those funds’ operations as they relate to the project objectives. Annual audited SIF and EPF financial statements will be reviewed by the FM team.	Substantial	No
<p><b>Project Level</b> Project funds may not be used for intended purposes or without due efficiency and effectiveness.</p>	Substantial	Under the MESP, a detailed Financial Management Manual was developed and is being followed by the PIU. The Financial Management Manual will be revised as needed and followed for this project. The same will apply to the EPF/LMPPP manual.	Substantial	No
<p><b>Control Risk</b></p>				
<p><b>Budgeting</b> Prudent and detailed budgeting will be required for the project as the project activities will contribute to and scale up the existing activities under the MESP.</p>	High	The PIU will prepare a workplan for the entirety of the project period and annualized budgets for the project activities and get them approved by the PSC as well as the World Bank. The funds for the EPF to be financed from the project under Component 2 will be reflected in the state budget as part of the budget allocation to the EPF.	Substantial	No
<p><b>Accounting</b> Project accounting and financial reporting will</p>	High	The PIU will continue to utilize its MIS – a computerized accounting and MIS – for	Substantial	No



involve many aspects including expenditures incurred from the EPF, lending by PFIs, transfers to SIF, and so on. Various sources of information and reconciliations would be required to finalize project accounting.		recording and accounting for project expenditures. In addition, reconciliations and journal entries will be performed to ensure the project funds are fully accounted for in relation to the EPF's, SIF's and PFIs' project-related activities.		
<b>Internal Control</b> Significant number of transactions would be done outside Project accounts.	High	The internal control procedures and practices established under the MESP will continue to be employed for the project. Relevant FM and EPF manuals would need to be closely followed.	Substantial	No
<b>Funds Flow</b> Complicated funds flow arrangements for the project involving EPF and SIF funds.	High	The PIU will closely monitor and coordinate with other relevant government agencies in terms of flow of funds and reporting and ensure various funds reconciliations are performed on a more frequent basis. The World Bank FM team will continue to support the PIU on this and other issues as needed.	Substantial	No
<b>Financial Reporting</b> The project will have to reconcile many accounts and transactions when preparing the project financial statements and manage the exchange rates for US Dollar reporting purposes while many transactions are made in local currency.	High	The PIU will continue to submit quarterly interim financial reports (IFRs) to the World Bank for review. In addition, when withdrawal applications (Was) get submitted to the World Bank, account reconciliations will be performed as currently done under the MESP. In addition, annual project audits will serve to ensure the accuracy and completeness of financial reporting.	Substantial	No
<b>Auditing</b> Audit quality: Unqualified auditors may audit the project implementation. Poor follow-up on audit findings: PIU does not address audit findings noted by the auditors.	Substantial	An independent external audit firm, acceptable to the World Bank, will be appointed by the Mongolian National Audit Office (MNAO) to conduct the project's annual audit under agreed TORs. The World Bank's FM team will monitor the PIU's implementation of annual audit findings.	Substantial	No



Overall	High		Substantial	
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15. **Disbursement and flow of funds arrangements.** The disbursement and flow of funds for this project will be similar to those of the MESP currently in implementation. A separate DA will be used by the PIU with the purpose of drawing funds from the World Bank, disbursing funds against eligible expenditures in carrying out the activities under the project. The ceiling of the DA will be variable and will be set based on estimated annual disbursement needs as requested by the client and approved by task team leader (TTL). The DA setup information will be specified in the Project Disbursement and Financial Information Letter (DFIL) issued by the World Bank.

16. Four disbursement methods will be available under the project including advance, reimbursement, direct payment, and special commitment. The primary method of disbursement for the project will be the advance method. The main type of supporting documents for the World Bank disbursements will be statements of expenditures. Due to the emergency nature of this project, direct payment or special commitment methods may be availed for disbursement of select procurement contracts under international open or limited competition or direct selection.<sup>39</sup> The detailed documentation requirements will be laid out in the DFIL.

17. Funds will be disbursed from the World Bank to the project DA in US dollars. The DA will mainly be used for US dollar transactions. For all other Mongolian Tughrik local currency payments, the Treasury investment subaccount will be used that will be replenished from the DA. A separate investment sub-account in Mongolian tughriks will be used for this project as well. The disbursement against eligible project expenditures from the DA and the investment sub-account will be signed off by authorized representatives from the MLSP and MOF. Specific project payment approval procedures will be documented in the revised FM Manual. Statements of Expenditures will report the payments made by the project. The ceiling will not be established for the investment sub-account but it will be dictated by the overall ceiling set for the DA.

18. The MOF will ultimately be responsible for managing the Mongolian tughrik subaccount and establishing the procedures handling all Mongolian tughrik transactions including PIU operating expenses and non-operating expenses in accordance with the government financial regulations. To ensure efficiency in project payment authorization procedures, the MOF will utilize a separate operating (PIU) subaccount for PIU’s incremental operating costs with the signing authority being delegated to the PIU coordinator and accountant in line with its internal Treasury procedures and regulations. The operating subaccount would be replenished from the investment sub-account based on quarterly operating budgets approved by the MOF.

19. The PIU may manage petty cash up to a ceiling to be approved under the project’s internal control procedures. Procedures for petty cash management, custody, payments and replenishment will be included in the FM Manual.

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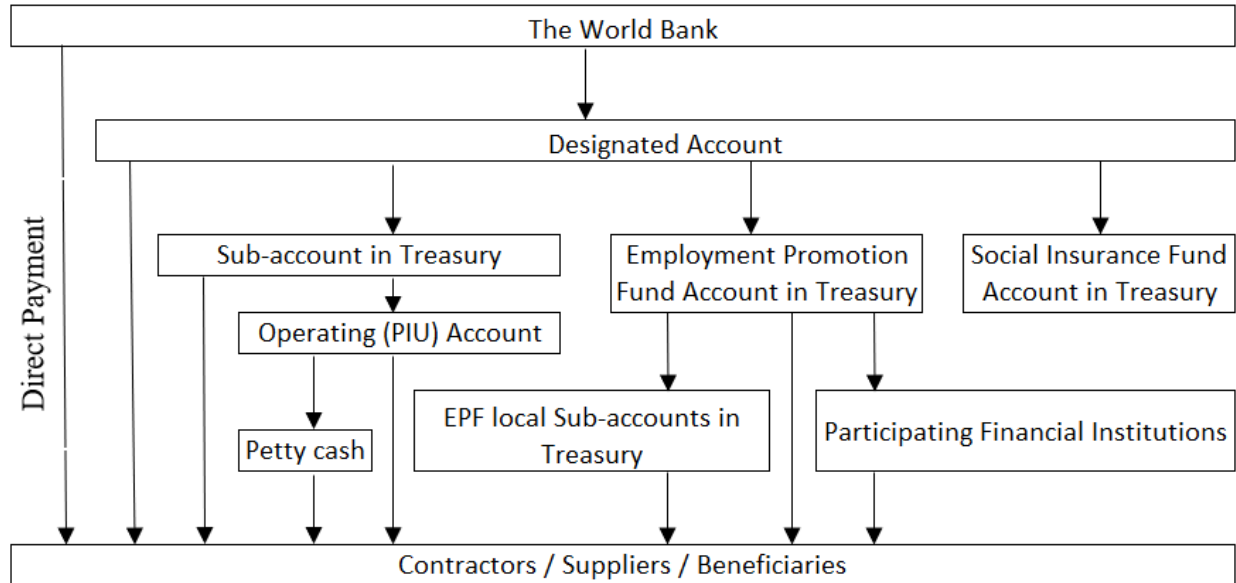
<sup>39</sup> While the project has been waived from participating in the mandatory direct payment pilot, direct payment will remain an option.





20. The general flow of funds for the project as described is shown in Figure 1.1.

Figure 1.1. General Flow of Funds



21. The PIU will be directly responsible for the management, maintenance, reconciliation of the DA, sub-accounts and cash transactions and will prepare and submit to the World Bank WAs with Statements of expenditure and other documents specified in the DFIL for documentation of project expenditures as per frequency stated in the DFIL. The WAs will be reviewed and signed off by the authorized representatives from the MLSP and MOF before being submitted to the World Bank for review and processing.

22. Primary financial documents maintained for the project shall be made available for review by the World Bank’s supervision missions, external auditors, internal auditors, MOF, and other relevant local inspections. If the auditors or the World Bank find disbursements that are not justified by supporting documentation or made for ineligible expenditures, the Bank may request the funds spent on ineligible expenditures to be refunded to the World Bank or take other actions in line with relevant World Bank policies.

### C. Specific Arrangements for EPF Activities under the Project

23. The activities under subcomponent 2.1 will be implemented through the EPF. The EPF is a budgetary instrument regulated by the Employment Promotion Law and aims to provide financing for employment promotion activities which include, but are not limited to, small business support, microloans, job intermediaries, and so on.

24. In addition to the Employment Promotion Law, there are two existing key cabinet-approved regulations that govern detailed operations of the EPF: (a) regulations on the funding sources,



disbursement, and monitoring of the EPF and (b) regulations on issuing microcredits, providing loan guarantees, indemnifying loan interest, and providing financial support from the EPF.

25. The EPF annual budget is reflected in the state budget of the MLSP’s portfolio and the detailed EPF budget with the specific programs and activities is approved annually by the National Employment Council. The GOLWS under the MLSP and the relevant aimag and district offices in charge of the sub-EPFs maintain a dedicated accounting system where all the EPF expenditures are recorded. The system also generates a consolidated set of financial statements, including a budget execution report by the different projects/programs and activities under the EPF. The MNAO audits the EPF annually. Annual audited EPF financial statements will be reviewed by the World Bank’s FM team to ensure the funds have been used for intended purposes and the fund itself is operating in a financially sustainable manner.

26. The project funds to finance the project activities to be implemented as part of the EPF, will flow through the existing EPF and sub-EPF accounts in the Treasury. The Government’s relevant EPF regulations will be followed for implementing the project activities through the EPF. These detailed regulations will be followed for the entire EPF operations and have already been documented in the EPF/LMPPP implementation manual that was adopted under the MESP.

27. The project activities to be carried out through the EPF and the corresponding financing will be planned and budgeted as part of the overall annual EPF budget following the state budget calendar and ultimately be approved by the National Employment Council. The World Bank funds will be used to finance specific pre-determined activities that support the PDO and planned project scope. The project funds transfer to the EPF, based on the budgetary and planning documents as well as pre-approved loan list by local selection committees, will be advanced to the EPF from the project DA. Table 1.2 reflects the arrangements for advancing project funds to the EPF and recognizing eligible expenditures when the advanced funds get disbursed from the EPF.

**TABLE 1.2. ARRANGEMENTS FOR PROJECT ACTIVITIES TO BE IMPLEMENTED THROUGH THE EPF**

<b>Project Activities to be Implemented through the EPF</b>	<b>Arrangements for Providing Advance to the EPF from the World Bank</b>	<b>Arrangements for Recognizing Eligible Expenditures</b>
Microloans	Multiple-year on-lending agreements will be established between the GOLWS and selected PFIs. Based on those agreements, local selection committees organized by local employment offices with participation from local PFI branches will screen and pre-approve a loan list of eligible beneficiaries in line to receive the microloans through the PFIs. The EPF will then consolidate the pre-approved loan list and submit it to the project for advance. The EPF will transfer advanced funds to PFIs based on the pre-approved loan list and will make monthly reconciliations	At the end of each quarter, the GOLWS, through the MLSP, will provide to the World Bank a microloan disbursement report from the PFIs showing the amounts of disbursed microloans to sub-borrowers. The World Bank will then record related disbursement and the project will recognize corresponding expenditures in its financial statement against those quarterly PFI disbursement reports.



	between its transferred amount and the actual disbursed amount by the PFIs. The actual disbursed amounts by PFIs will be used to record disbursement by the World Bank. Further details will be specified in the POM.	
Nonfinancial support to micro-entrepreneurs	Each year, based on the annual project and EPF budgets, the World Bank will provide an annual advance to the EPF for financing the planned project activities to be carried out through the EPF.	At the end of each year, the MLSP will provide the World Bank with an EPF budget execution report by project activities and the actual expenditures spent for the agreed-upon activities will be recognized as eligible expenditures based on the budget execution report.

28. As the project funds to be managed within the EPF will be budgeted as part of the Government’s regular budgeting process, the MLSP and the World Bank will agree on the annual total project advance amount to the EPF by June each year. Then, later in the year, once the EPF detailed budget by activities is approved, the MLSP will provide the World Bank with details of the EPF activities to be financed by the project and the World Bank will provide the requested advances based on the detailed annual budget and monthly preapproved loan lists as well as budget execution reports for previous years as described in Table 1.2. Any unreported balance at the end of the year will be deducted from the following year’s planned project advance to the EPF.

29. Category 2 expenditures under the project will be recorded in the EPF accounting system by the relevant aimag and district offices in charge of the EPF and sub-EPFs, reported as part of the EPF standard reports, and audited as part of the annual audit of the EPF carried out by the MNAO.

30. The MOF review of the EPF performance that was conducted in November 2018 for the period of 2012 through 2018 October revealed a number issues including falling short of the revenue plans; maintaining a poor electronic database; lack of robust M&E practices of its activities; poor collection on its lines of credit; and, in some cases, a nontransparent process of selecting PFIs for microloan disbursement under its microloan program. Together these issues raised concerns over the efficacy of the EPF. However, to safeguard against such issues the World Bank agreed with the MLSP to introduce robust and concrete set of procedures according to the MESP disbursement conditions for Category 2 expenditures. The MLSP approved the EPF/LMPPP manual (November 2018), that includes, among others, the following regulations on- (a) procedure for allocation of employment support the microloan budget to aimags and districts; (b) guidelines for selecting a participating bank to administer on-lending of employment support microloans; (c) sample agreement to be established with a participating bank to carry out a microcredit line within the scope of the LMPPP; (d) sample agreement to be established with a participating bank to carry out micro-loan under the EPF; (e) guidelines for selection of micro-loan applicants; (f) sample agenda and cost estimates for pre-loan training; and (g) tools for assessing the environmental and social impacts of the proposed business of microloans applicants. Furthermore, relevant procedures, cost ceilings and sample templates for administrating the post-loan non-financial support services were introduced. The World Bank will closely monitor its funding activities of the EPF



and will require separate financial reporting on them to ensure the funds have been used for intended purposes. The adherence to the EPF/LMPPP manual will be closely monitored by the PIU and GOLWS. In addition, the World Bank will obtain and review annual audited EPF financial statements throughout the project implementation period to ensure project funds have been used for intended purposes and monitor the EPF fiduciary environment. In addition, the Bank will obtain and review the audit results of the PFIs' Bank financed micro-loan activities.

#### **D. Specific Arrangements for Component 4 Activities under the Project**

31. **Implementing arrangements.** The temporary relief to SI contribution is governed by the 'Law on Exemptions for SI contribution and Assistance from Unemployment Insurance Fund' approved by the Parliament of Mongolia on April 9, 2020. Article 7 of the mentioned law stipulates that the Government will approve a specific procedure for regulating the SI contribution exemption, recording, reporting, monitoring, and other implementation details. The Government procedure for implementation of the above-mentioned law was approved as of April 17, 2020, and fed into the preparation of the disbursement arrangement.

32. **Disbursement and funds flow.** A new disbursement category 'SIF contributions' will be created to accommodate the fund transfer from the project to the SIF. The transfer to the SIF will be made from the project DA based on a monthly report to be submitted to the World Bank by the MLSP. The SIGO monthly reports submitted to the MLSP will contain information on the number of eligible beneficiaries (both employers and employees) getting their SI contributions waived and recorded as paid under the mandatory SI contribution scheme by the aimag and district SI offices, and the total amounts of such waived SI contributions by each aimag and district. The SIF transfer will be made from the project DA directly to the SIF special account with the Treasury Single Account (TSA) in local currency. Once the funds get transferred from the project DA to the SIF based on the submitted monthly reports, the disbursement will be recorded and corresponding expenditure will be recognized under the project. The SIF contributions of up to USD 10 million will retroactively cover and partially compensate the SIF for the waived SI contributions applicable for the period from April 1, 2020, until September 30, 2020. Depending on the total amounts of monthly SI contributions waived, the actual SIF contribution may end up covering them for one month only. When the MLSP submits the monthly report to the World Bank, it will also provide the SIF special account information to the World Bank that will be used to receive the SIF transfer. As the SIF transfer will be made from the project DA account contingent on the MLSP provision of the monthly report containing actual amounts of SI contributions waived and recorded as paid by the aimag and district SI offices, no advances will be made to the SIF special account from the project.

33. **Fiduciary oversight.** To ensure that the transferred funds have been received by the intended SIF special account, the MLSP will provide the World Bank with documentation showing evidence of the deposit of the transferred sum into the SIF special account. The SIF special account statement showing the deposited amount of the transfer from the project DA will be sufficient for this purpose.

34. **Accounting and financial reporting.** The project will record SIF transfers in its accounting and financial records as an expenditure as soon as the transfer is made out from the project DA to the SIF special account with the TSA and upon receiving the corresponding document on completion of the transfer to the SIF special account. The relevant expenditure will be recognized under Category 3: 'SIF



contributions’ in the project financial statements. The main documentations for the basis of the accounting will be the monthly reports to be provided by the MLSP as well as the SIF account statement.

35. **Audit.** The transfer of the funds to the SIF special account will be confirmed through obtaining the SIF special account statement. This documentation should be provided to the World Bank as soon as the transfer is made as it will be a required document for the audit purposes of the project financial statements. The World Bank FM team will obtain annual audited financial statements of the SIF from publicly available domain to ensure, where possible, that the SIF has received the World Bank’s funds for the intended purposes and that its operations are maintained in a financially sustainable manner. Any findings of the review would be considered for the World Bank’s follow-up actions and remedies. The review of the annual audited SIF financial statements will be carried out during the project implementation period.

36. **Project budgeting.** The PIU will prepare an annual budget/disbursement plan which will be submitted to the PSC for approval and to the World Bank for review and no-objection. Thereafter, it shall be reflected in the state budget including the budget for EPF activities. The PIU will conduct variance analyses; report them on the quarterly IFRs; provide reasons why differences occur between the planned (budgeted) and actual expenses, if any; and take necessary actions to ensure the project is implemented as planned.

37. The project proceeds will be disbursed against eligible expenditures (inclusive of taxes) as described in Table 1.3.

**Table 1.3. Disbursement Against Eligible Expenditures**

<b>Category</b>	<b>Amount of IDA Credit (US\$)</b>	<b>Percentage of Expenditures to be Financed (inclusive of Taxes)</b>
(1) Goods, works, non-consulting services, consultants' services, training and incremental operating costs for activities under Parts 1, 2.2, and 3 of the Project	4,500,000	100 %
(2) Non-consulting services, consultants' services, training, micro-loans for activities under Part 2.1 of the Project	5,500,000	100 %
(3) SIF Contributions under Part 4 of the project	10,000,000	100% of the amount disbursed
<b>TOTAL AMOUNT</b>	20,000,000	

38. **Accounting and financial reporting.** The project accounting will follow the Government’s accounting framework which is based on International Public Sector Accounting Standards (IPSAS). IPSAS



was adopted by Mongolia in 2003. For this project, the PIU will continue to use its current accounting software for accounting and reporting purposes. However, accounting and reporting under this project will be separated from those of the MESP. The Project financial statements will include the following: (a) balance sheet; (b) statement of sources and uses of funds; (c) statement of uses of funds by project activities; (d) statement of DA; (e) statement of sub-DA; (f) statement of Operating Account (OA); and (g) notes to the financial statements (for annual financial statements for audit).

39. The PIU will prepare IFRs, inclusive of the above reports, on a quarterly basis, directly from the accounting software and submit the reports to the World Bank for review within 45 days after the end of each calendar quarter.

40. For Category 2 expenditures, the PIU will record journal entries at quarter-end to record the project's EPF expenditures in the project accounting system based on the quarterly EPF financial reports by the project/program and activities and loan disbursement reports by PFIs. Individual expenditures under the EPF shall not be recorded in the project accounting system.

41. As the PIU will centrally manage and handle the project FM, it will be responsible for recording the project accounts, preparing project financial statements, and retaining all documentation supporting disbursements as well as processing the WAs during the life of the Project.

42. **Internal control.** The project FM Manual will be updated by the PIU to mainly reflect the latest disbursement arrangements. The updated FM Manual will be followed for the procedures relating to proper authorization for payment requests, segregation of duties, reporting requirements, and other specific internal control procedures, and practices relating to the project's FM. In addition, regular oversight by the PSC, periodic supervision missions by the World Bank, annual financial audits by independent external auditors, and reports of public internal auditors will serve as mechanisms to ensure that the project's FM systems function effectively. In addition, the EPF/LMPPP manual that was developed under the MESP will be revised as needed to meet the needs of this project, detailing rules and regulations on the required EPF arrangements and processes. The EPF/LMPPP manual shall be closely followed when implementing EPF-related activities under the project.

43. **Audit arrangements.** The World Bank requires the project financial statements to be audited in accordance with auditing standards acceptable to the World Bank. Therefore, in line with other World Bank-financed projects in Mongolia, the MNAO will appoint an independent external auditor acceptable to the World Bank to conduct annual audits of the project financial statements in accordance with the International Standards on Auditing and under TORs satisfactory to the World Bank. The audit will be financed from the project proceeds. The annual audit report of project financial statements will be due to the World Bank within six months after the end of each reporting period ending December 31. This requirement will be stipulated in the DFIL.

44. **Supervision plan.** The supervision strategy for this project is based on its FM risk rating, which will be evaluated on a regular basis by the FM specialist in line with the World Bank's FM guidance and in consultation with the project TTL.



45. There are no overdue audit reports or known ineligible expenditures under the original MESP or any other projects implemented by the MLSP.

#### **E. Procurement**

46. The MLSP will be responsible for the project procurement through the PIU.

47. In view of the project specifics, the project is not expected to be procurement intensive, as a major part of the project resources (around 77.5 percent) is allocated for SIF transfers and microloans to micro-entrepreneurs. Procurement activities that will be carried out for the remaining portion of the loan will comprise contracts for goods, consulting services of very small amount and not complex, and one work for minor renovation of one office.

48. The key risks for the project are: (a) the MLSP lacks the necessary technical capacity and oversight skills in procurement and contract management; (b) the MLSP is not familiar with the World Bank's new Procurement Regulations for IPF Borrowers that would apply to this project; (c) parallel implementation of two projects with two different procurement rules adds more risks; (d) possible political interference in procurement and/or preference for specific service providers/suppliers/consultants leading to delays in procurement process;(e) possible change of the core PIU staff, especially after the elections/government changes and new staff tending to have little or no knowledge and experience about procurement in World Bank-financed projects; (f) inadequate planning and scheduling to ensure that contracts can commence and be completed as planned; and (g) due to COVID-19-related global situation, the project may be constrained in purchasing critically needed equipment and materials due to significant disruption in the supply chain. Also due to travel restrictions, consultants may not be available.

49. To mitigate the risks, the following actions were discussed and agreed with the MLSP:

- (a) A user-friendly Procurement Manual that describes accountability and responsibility of all parties and all steps of the procurement process will be developed and agreed.
- (b) A procurement training program (internal/external) for the MLSP that is both relevant and practical will be implemented over the life of the project. The PIU procurement officer will need to receive adequate level of support, training, and supervision on the job.
- (c) Technical staff and users will be involved in preparation of specifications and TORs.
- (d) It is to be ensured that procurement planning starts well in advance and will be realistic and that all parties concerned keep to the agreed schedule and will need to start.
- (e) Appropriate prior review will be executed by the World Bank team to ensure that the PIU staff are familiar with the required rules and procedures. Procurement post review will be conducted annually, and relevant findings and recommendations will be shared on time with the MLSP/PIU to ensure, that in future, similar issues with procurement activities are not repeated.
- (f) Awarding of contracts to fully qualified, experienced contractors will mitigate the risks with contract delays.



- (g) The World Bank procurement specialist will deliver training to the PIU staff and evaluation committee members about procurement in World Bank-financed projects and the Procurement Regulations for IPF Borrowers. Such trainings will be provided during project preparation and implementation on a regular basis.

50. Despite the risks identified, with mitigation measures undertaken and considering a nature of the project procurement, the risk is assessed Moderate.

51. **Applicable guidelines.** Procurement for the proposed activities shall be carried out in accordance with the World Bank's 'Procurement Regulations for IPF Borrowers: Procurement in Investment Project Financing for Goods, Works, Non-Consulting and Consulting Services' dated July 2016 (revised in November 2017 and August 2018). The project is also subject to the World Bank's Anticorruption Guidelines, dated October 15, 2006, revised in January 2011, and as of July 1, 2016.

#### *Procurement Arrangements*

52. **Works and supply and installation.** Within this project, very small value works contracts will be performed for physical upgrades of an office and will be procured following the Request for Quotations method.

53. **Goods and non-consulting services procurement.** Goods procured under this project will include office furniture and ICT equipment for the LMIS, printing of promotional materials, and so on. For all goods and non-consultant services contracts below US\$100,000, the Request for Quotation method will be applied. Direct Selection may be used for some non-consultant services in exceptional cases where the service provider is of unique or exceptional qualification.

54. **Selection of consultants.** The project will finance only few numbers of consulting service assignments to be contracted by the MLSP for the review of private employment services, capacity building, specialized technical services, and so on. These consulting services will be procured through Open Competition. Selection Based on Consultants' Qualification will be used in most contracts. Direct Selection may be used in exceptional cases where the individual consultant has relevant experience and qualification of exceptional worth to the assignment or only one firm is qualified, or the contract is of low value and low risk.

55. **Training and workshops.** The MLSP shall prepare training plans as part of the annual work plans for World Bank review and technical no-objection. The plans shall include details of the learning event, including description; learning objectives; indicators; type (for example, workshop, conference, meeting, focus group discussions, and study tour); target group; number of participants; details of trainers; location; dates; cost breakdown; and other details as the World Bank may request. Any modification to the plan will require World Bank review and no-objection.

56. **Procurement Manual.** The Procurement Manual shall describe the procurement selection procedures/methods to be used and the circumstances for the use of each method. The Procurement Manual will also provide links to various supporting documents relating to the handling of procurement, including the format for a simplified Procurement Plan, simplified bid documents/requests for proposals,





a sample of evaluation reports and forms of agreements for goods and services, and a format for reporting on procurement and contract progress. The Procurement Manual will also include provisions for the roles, functions, and responsibilities of MLSP staff.

57. **Procurement Plan.** The MLSP will prepare a Procurement Plan for contracts to be procured by the MLSP during the first 18 months of project implementation. The preliminary Procurement Plan will be agreed with the World Bank. It will be made available in the project database and on the World Bank’s external website. The Procurement Plan will be updated annually or as required to reflect implementation needs and improvements in institutional capacity.

58. **Thresholds for procurement methods and prior review.** The Procurement Plan for the contracts to be procured by the MLSP shall set forth those contracts which are subject to prior review by the World Bank. The procurement method thresholds in Table 1.4 are indicative.

**Table 1.4. Procurement Method Thresholds (US\$)**

ICB		NCB		Shopping		Consulting
Works	Goods/Non Consulting	Works	Goods/Non Consulting	Works	Goods/Non Consulting	Firms (all national)
>5,000,000	>1,000,000	≤5,000,000	≤1,000,000	≤200,000	≤100,000	≤100,000

Note: ICB = International Competitive Bidding; NCB = National Competitive Bidding

59. **Frequency of procurement supervision.** Procurement supervision by the World Bank will be carried out twice a year. Procurement post review for contracts procured by the MLSP will be carried out once a year. The sampling ratio will be at least one in five contracts.

**F. M&E**

60. Overall responsibility for project M&E and reporting will rest with the PIU. PRs showing progress toward achieving the PDOs and outcomes will be submitted to the World Bank and the PSC semiannually within 30 calendar days. They will be supplemented by detailed FMRs and PMRs in a format agreed upon with the World Bank. The PIU will also consolidate findings in an Annual Report and prepare a comprehensive Completion Report at project completion. Day-to-day M&E duties will be carried out by the PIU’s M&E specialist who will coordinate all M&E activities. The M&E specialist will also be responsible for supervising the impact evaluation (with close support from the World Bank) and will work closely with the program officers responsible for the different components.

**G. Strategy and Approach for Implementation Support**

61. The Implementation Support Plan focuses on mitigating the risk related to the institutional capacity for implementation and sustainability and other risks identified in the SORT and aims at making implementation support flexible and efficient. The aim of the support plan is to provide the technical advice necessary to facilitate achievement of the PDO (linked to results/outcomes identified in the results framework), as well as to identify the minimum requirements to meet the World Bank’s fiduciary obligations:



- (a) **Procurement.** Implementation support will include (i) providing additional staff and training as needed to the PIU to assist with the preparation of technical specifications and TORs, (ii) reviewing procurement documents and providing timely feedback to the PIU, (iii) providing detailed guidance on the World Bank's Procurement and Consultant Guidelines to the PIU, and (iv) monitoring procurement progress against the detailed Procurement Plan.
- (b) **FM.** Implementation support will include (i) reviewing Mongolia's FM system, including, but not limited to, accounting, reporting, and internal controls; (ii) leveraging the PIU; (iii) providing training to the PIU, as needed; and (iv) reviewing submitted financial reports and providing timely feedback to the PIU.
- (c) **Other issues.** Political and governance risk will be mitigated through broad and frequent consultations and communication with technical counterparts and also political decision makers, beneficiaries, and other stakeholders. Mitigation activities for the risk related to the institutional capacity for implementation and sustainability will include close support and training for the PIU's M&E specialist and other staff.

#### H. Implementation Support Plan and Resource Requirements

62. The risk related to the institutional capacity for implementation and sustainability will require intensive implementation support. Particularly intensive support will be required during project preparation and during the first year of implementation. During both project preparation and the first year of project implementation, the World Bank task team members will be available to provide timely, efficient, and effective implementation support. Implementation support missions will be carried out at least three times annually in the first two years of implementation and at least twice per year thereafter. The implementation support missions will be complemented with regular ICT-enabled exchanges between the PIU and the World Bank task team to discuss project progress.

63. Detailed inputs from the World Bank team are outlined as follows:

- (a) **Technical and policy inputs.** Technical and policy inputs will be provided through the review of bidding documents to ensure fair competition, sound technical specifications and assessments, and confirmation that activities are in line with the intended approaches toward employment support.
- (b) **Fiduciary requirements and inputs.** Training will be provided by the World Bank's FM and procurement specialists, as needed. The FM and procurement specialists will be based in the region to provide timely support. Formal FM supervision strategy for this project will be based on its FM risk rating and the frequency will be determined accordingly, while formal procurement supervision will be carried out as required.
- (c) **Financial intermediary financing.** The World Bank will closely support the implementation and monitoring of all arrangements related to financial intermediary financing in Subcomponent 2.1.
- (d) **M&E.** Support for M&E will be a priority area. The World Bank will provide detailed inputs and guidance for the design and implementation of the impact evaluation of the skills innovation program (Subcomponent 2.2). This will require intense engagement in the form



of workshops for deciding on an evaluation design, testing of instruments, development of a TOR for data collection, and so on.

- (e) **Social and environmental.** Inputs from environmental and social safeguards specialists will be sought as needed.
- (f) **Technical assistance.** The World Bank will provide technical assistance in all relevant aspect of the project as necessary.

64. The main focus of planned implementation support, the skills needed, and the estimated numbers of staff weeks and trips required for implementation support are summarized in tables 1.5 and 1.6.

**Table 1.5. Implementation Support Plan**

Time	Focus	Skills Needed	Resource Estimate (Staff Weeks Per Year)
First 24 months	Implementation support coordination and client relationship management	TTL	18
	Overall technical support	Labor economist	12
	Overall operational support	Operations officer	14
	Support for financial intermediary financing	Financial sector specialist	4
	FM	FM specialist	4
	Procurement	Procurement specialist	4 (6 in first year)
	Environmental and social	Environmental and social specialist	2
25 to 48 months	Implementation support coordination and client relationship management	TTL	16
	Overall technical support	Labor economist	10
	Overall operational support	Operations officer	8
	Support for financial intermediary financing	Financial sector specialist	2
	FM	FM specialist	2
	Procurement	Procurement specialist	4
	Environmental and social	Environmental and social specialist	2



**Table 1.6. Skills Mix Required**

<b>Skills Needed</b>	<b>Number of Staff Weeks Per Year</b>	<b>Number of Trips Per Year</b>	<b>Comments</b>
TTL	16 (18 in first two years)	2 (3 in first two years)	Based in Washington, DC or Ulaanbaatar
Labor economist	10 (12 in first two years)	2 (3 in first two years)	Based in Washington, DC, Ulaanbaatar, or in the region
Operations officer	8 (14 in first two years)	2 (3 in first two years)	Based in Ulaanbaatar
Financial sector specialist	2 (4 in first two years)	1	Based in Washington, DC, or Ulaanbaatar
FM specialist	2 (4 in first two years)	1	Based in Ulaanbaatar
Procurement specialist	4 (6 in first year)	1	Based in Ulaanbaatar
Environmental and Social specialist	2	1	Based in Washington, DC, or Ulaanbaatar



ANNEX 2: Assessment of Financial Sector and Financial Intermediaries

**COUNTRY: Mongolia**

**Mongolia Emergency Response and Employment Support Project**

65. This project includes a line of credit; hence it requires an OP 10.00 compliance review. This review ensures that the project does not contradict financial sector policy dialogue with the national authorities and does not promote unsustainable practices (such as using financial institutions that do not meet soundness requirements, loan designs that do not include good practices design elements, poor client selection, or ineffective loan contract enforcement). This review is built on the successful initial experiences of the MESP, as well as a review of draft documents and detailed technical discussions with the task team.

66. In many client countries, the effects of the COVID-19 pandemic have been devastating—in terms of fiscal stresses (from health care costs and revenue losses), in loss of productivity (due to lockdowns and loss of life), and the high possibility of bankruptcies of firms and financial institutions. During this emergency period, the project design can be adapted to permit subsidized interest rates, as long as there is a clear path for a return to commercial practices as markets are reopened.

67. Summary:

- (a) The existing MESP is relatively new but has already shown demand for appropriately priced funds by the target clients in rural areas. It relies on two of the largest sound financial institutions in the country.
- (b) The project will respond to the urgent COVID-19 situation with the same target group and a set of sound financial intermediaries that meet Bank of Mongolia requirements, but will be permitted to use a short-term interest rate subsidy to respond to market pressures created by the COVID-19 pandemic.
- (c) Based on information provided, the project funds will be ringfenced and used for activities that are low to moderate risk (in environmental and social terms) and a negative list will be in place.

68. **Macroeconomic stability.** Lines of credit do not work well when there is a high level of uncertainty, created in part by macroeconomic problems (such as high inflation and uncertainty on government fiscal and monetary policies) or a history of favoritism and corruption that leads to large unproductive investment projects that might drive macroeconomic stress. Given recent inflation information, there is little risk of a macroeconomic issue adversely affecting the line of credit. This might change in the short term as COVID-19 expenses mount and there is pressure on fiscal space in the national budget. The task team will monitor this possibility during early implementation.

69. **Financial sector performance.** According to the World Bank Mongolia Economic Update on Macroeconomic Stability and Credit Growth (January 2020), there are six important vulnerabilities in the financial sector. These include (a) under-capitalization, (b) poor quality of banks' portfolios, (c) heavy concentration of a small number of depositors, (d) a preference for liquidity over lending to the private



sector, (e) high exposure to foreign exchange lending, and (f) high five bank ratio concentration (87 percent of system assets in only five banks). There is also room to further strengthen the oversight of the banking sector by the Bank of Mongolia. This weak banking structure will be tested further by the COVID-19 crisis. Also, in October 2019, Mongolia was added to the 'gray list' by an international agency that polices anti-money laundering activities and terrorism financing. Inclusion on this list adds uncertainty to the investor confidence and the international community related to the economy, the financial sector and the local currency. One positive feature is the branch banking system, which has over 1400 access points. During the MESP, PFIs performed satisfactorily. The World Bank maintains a financial sector policy dialogue with the authorities to ensure that risks are addressed efficiently and effectively. These risks should not endanger project performance.

70. **Apex and retail arrangements.** For microcredits of the existing Entrepreneurship Development Program, funds are channeled through the MLSP's Enterprise Development Program (EPF) and then onwards to PFIs and finally beneficiaries (sub-borrowers) in the form of microloans. Through a competitive process, the EPF will partner with banks that meet established criteria (found in the POM and focused on soundness and financial performance). Selected banks will distribute microloans to sub-borrowers from a short list of potential sub-borrowers provided by the project and monitor their repayment.

71. **Flow of funds by institution, pricing, and risk taking along the entire flow of funds.** During the emergency phase, a subsidized interest rate will be set, and the subsidy element will be passed on to the subborrower. Approximately three months after that period, the ministry (serving as apex) will charge the PFIs a rate at the lower end of a wholesale commercial interest rate. The PFIs will add a margin for credit risk and on-lend to sub-borrowers at an interest rate they establish.

72. **M&E and indicators.** Loan portfolio repayment problems can occur quickly, if M&E and portfolio quality indicators are not included. The project does not formally include an indicator on portfolio quality, nor on the number of PFIs that are provided services under the project to sub-borrowers. It would be important to include at least one intermediate indicator to measure the effectiveness of the services provided under this subcomponent. It would also be useful to collect and analyze this information on a gender-disaggregated basis. Using an indicator that participating banks already use to monitor portfolio quality, and that is preferred by the Bank of Mongolia, would be an efficient approach for the project. However, given the COVID-19 setting, the project will be using the outcome indicator of business viability six months after the loans have been disbursed (and it is gender disaggregated). To support business survival, the project will continue providing non-financial services even after the micro-loans have been fully repaid. The project will track business viability, though not necessarily from the PFI data.

73. **Relationships with International Finance Corporation (IFC) and other World Bank activities.** At the project level, no coordination with IFC is planned. This is not a sector with active IFC investments nor technical assistance commitments.