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INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF SDR 18.4 MILLION
(US\$25 MILLION EQUIVALENT)

TO

MONGOLIA

FOR A

MONGOLIA EMPLOYMENT SUPPORT PROJECT
April 6, 2017

Social Protection and Labor Global Practice
East Asia and Pacific Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective January 31, 2017)

Currency Unit = Mongolian Tugrik (MNT)

MNT 2,455.01 = US\$1.00

US\$1.36 = SDR 1.00

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
CGFM	Credit Guarantee Fund of Mongolia
CPS	Country Partnership Strategy
CQS	Selection Based on the Consultants' Qualifications
DL	Disbursement Letter
EHS	Environment, Health, and Safety
EPF	Employment Promotion Fund
EPP	Employment Promotion Program
ESMF	Environmental and Social Management Framework
FDI	Foreign Direct Investment
FM	Financial Management
FMR	Financial Monitoring Report
GDP	Gross Domestic Product
GRS	Grievance Redress Service
GOLSWs	General Office for Labor and Social Welfare Services
ICB	International Competitive Bidding
ICT	Information and Communication Technology
IFR	Interim Financial Reports
IMF	International Monetary Fund
IRR	Internal Rate of Return
LFS	Labor Force Survey
LSPRI	Labor and Social Protection Research Institute
M&E	Monitoring and Evaluation
MLSP	Ministry of Labor and Social Protection
MNAO	Mongolian National Audit Office
MOF	Ministry of Finance
MOL	Ministry of Labor
NBFI	Nonbank Financial Institution
NCB	National Competitive Bidding
NGO	Nongovernmental Organization
NPV	Net Present Value

OA	Operating Account
PDO	Project Development Objective
PFI	Participating Financial Institution
PIU	Project Implementation Unit
PMR	Procurement Management Report
PMT	Proxy Means Test
PR	Progress Report
PSC	Project Steering Committee
QCBS	Quality- and Cost-Based Selection
RCT	Randomized Control Trial
SCC	Savings and Credit Cooperative
SSS	Single Source Selection
TORs	Terms of Reference
TVET	Technical and Vocational Education and Training
WA	Withdrawal Application

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**BASIC INFORMATION**

Is this a regionally tagged project? No	Country(ies)	Lending Instrument Investment Project Financing
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☐ Situations of Urgent Need of Assistance or Capacity Constraints

☒ Financial Intermediaries

☐ Series of Projects

Approval Date 27-Apr-2017	Closing Date 30-Sep-2021	Environmental Assessment Category B - Partial Assessment
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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.

Components

Component Name	Cost (US\$, millions)
Supporting client-centric public employment services	4.75
Strengthening select active labor market programs	17.25
Facilitating labor market monitoring and analysis and project management	3.00

Organizations

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



<input type="checkbox"/> Counterpart Funding	<input type="checkbox"/> IBRD	<input checked="" type="checkbox"/> IDA Credit <input type="checkbox"/> Crisis Response Window <input type="checkbox"/> Regional Projects Window	<input type="checkbox"/> IDA Grant <input type="checkbox"/> Crisis Response Window <input type="checkbox"/> Regional Projects Window	<input type="checkbox"/> Trust Funds	<input type="checkbox"/> Parallel Financing
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Total Project Cost:	Total Financing:	Financing Gap:
25.00	25.00	0.00
	Of Which Bank Financing (IBRD/IDA):	
	25.00	

Financing (in US\$, millions)

Financing Source	Amount
IDA-59740	25.00
Total	25.00

Expected Disbursements (in US\$, millions)

Fiscal Year	2017	2018	2019	2020	2021	2022
Annual	0.00	1.77	2.67	5.14	8.73	6.69
Cumulative	0.00	1.77	4.44	9.58	18.31	25.00

INSTITUTIONAL DATA

Practice Area (Lead)

Social Protection & Labor



Contributing Practice Areas

Climate Change and Disaster Screening

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

Gender Tag

Does the project plan to undertake any of the following?

a. Analysis to identify Project-relevant gaps between males and females, especially in light of country gaps identified through SCD and CPF

Yes

b. Specific action(s) to address the gender gaps identified in (a) and/or to improve women or men's empowerment

Yes

c. Include Indicators in results framework to monitor outcomes from actions identified in (b)

Yes

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Rating
1. Political and Governance	● Substantial
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	● Moderate
7. Environment and Social	● Moderate
8. Stakeholders	● Moderate
9. Other	
10. Overall	● Moderate



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

Safeguard Policies Triggered by the Project

Yes

No

Environmental Assessment OP/BP 4.01

✓

Natural Habitats OP/BP 4.04

✓

Forests OP/BP 4.36

✓

Pest Management OP 4.09

✓

Physical Cultural Resources OP/BP 4.11

✓

Indigenous Peoples OP/BP 4.10

✓

Involuntary Resettlement OP/BP 4.12

✓

Safety of Dams OP/BP 4.37

✓

Projects on International Waterways OP/BP 7.50

✓

Projects in Disputed Areas OP/BP 7.60

✓

Legal Covenants

Sections and Description

The Recipient shall establish, and thereafter ensure, that the Project is implemented subject to the overall guidance, coordination and oversight of the Project Steering Committee (Schedule 2 Section I.A.1(a) of the Financing Agreement).

Sections and Description

The Recipient shall carry out the Project, or cause the Project to be carried out, in accordance with the provisions of the Environmental and Social Management Framework, and except as the Association shall otherwise agree in writing, the Recipient shall not amend, abrogate or waive, or permit to be amended, abrogated or waived, said instrument or any provision thereof (Schedule 2 Section I.D.1 of the Financing Agreement).

Sections and Description



In providing the Employment Promotion Piloting Grants under Part 2(c) of the Project, the Recipient shall ensure that all activities are prepared, reviewed, approved and implemented on the basis of eligibility and selection criteria and in accordance with guidelines and procedures, all acceptable to the Association and set forth in this Agreement, the Project Operations Manual and the Employment Promotion Fund Manual (Schedule 2 Section I.E.1 of the Financing Agreement).

Sections and Description

In carrying out Part 2(b)(ii) of the Project, the Ministry of Finance and the Ministry of Labor and Social Protection shall enter into an on-lending agreement (Schedule 2 Section I.A.5 of the Financing Agreement).

Conditions

Type Effectiveness	Description The Recipient has prepared and adopted the Project Operations Manual in a form satisfactory to the Association
Type Effectiveness	Description The Recipient has established the Project Implementation Unit with a mandate, composition and terms of reference satisfactory to the Association.
Type Disbursement	Description No withdrawal shall be made under Category 2 until the Recipient has prepared and adopted the Employment Promotion Fund Manual in a manner acceptable to the Association.

PROJECT TEAM

Bank Staff

Name	Role	Specialization	Unit
Achim Daniel Schmillen	Team Leader(ADM Responsible)		GSP02
Gerelgua Tserendagva	Procurement Specialist(ADM Responsible)		GGO08
Badamchimeg Dondog	Financial Management Specialist		GGO20
Battuya Dash	Team Member		EACNF
Chau-Ching Shen	Team Member		WFALN



Dulguun Byambatsoo	Team Member	GGO20
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Zhuo Yu	Team Member	WFALN
Extended Team		
Name	Title	Organization
		Location



MONGOLIA
MONGOLIA EMPLOYMENT SUPPORT PROJECT

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I. STRATEGIC CONTEXT

A. Country Context

1. Mongolia is a landlocked country in Northern Asia. It has a surface area of 1.6 million square kilometers and about 3 million inhabitants, 1.3 million of whom live in Ulaanbaatar, the country's capital. With a population density of around 1.9 inhabitants per square kilometer, Mongolia is the world's least densely populated country. Administratively, Mongolia is divided into Ulaanbaatar and 21 *aimags* (provinces). Ulaanbaatar is further divided into districts and *khoroos* (city wards). *Aimags* are further divided into *soums* (counties) and *baghs* (villages).

2. A large segment of Mongolia's economy depends on the extraction and export of natural resources. This has led to a pronounced cyclicity in economic activity. Between 2010 and 2014, when commodity prices were high, Mongolia experienced strong economic growth and rapidly declining poverty. Since 2014, the dampening of commodity markets and slower growth in China (Mongolia's main trading partner) have led to a fall in export earnings and foreign direct investment (FDI) inflows. The result has been a dramatic slowdown in Mongolia's growth. The country's gross domestic product (GDP) growth rate fell from 7.9 percent in 2014 to 2.4 percent in 2015 and is expected to slow even further in 2016, to less than 0.1 percent. Mongolia's medium-term outlook is more positive as a recovery in FDI inflows is projected to again begin to support growth. The International Monetary Fund (IMF) currently forecasts Mongolia's GDP growth to stay below 1.0 percent in 2017 but to bounce back to 3.5 percent in 2018 and to 5.1 percent in 2019.¹

3. In Mongolia, jobs and poverty are closely linked. Poverty incidence is highest for those without productive and well-paying jobs. In rural areas, the majority of poor households have no access to wage employment. In 2014, only 39.4 percent of poor households in rural areas had one or more household members with income from wages. In urban areas, access to wage jobs is more prevalent. Nearly 79.9 percent of poor urban households have some form of wage income. However, even if they have some form of wage income, the poor in urban areas have comparatively less access to productive and well-paying jobs than the nonpoor. In 2014, the labor force participation rate among urban nonpoor households with wages as the major income source was 70 percent, whereas among the urban poor it amounted to only 57.8 percent. Furthermore, among urban households with wages as the major income source, the share of low-skilled jobs among all jobs was 87.7 percent among the poor as compared to 51.2 percent among the nonpoor.²

4. The close link between jobs and poverty is one reason why generally poor labor market outcomes are a major concern in Mongolia. The current economic slowdown has brought a significant decline in the labor force participation rate and a rapid rise in the unemployment rate. The labor force participation rate decreased from 63.7 percent of the adult population in the third quarter of 2014 to 61.6 percent in the third quarter of 2016 and the unemployment rate rose from 6.4 percent of the labor force in the third quarter of 2014 to 9.4 percent in the third quarter of 2016. In the first quarter of 2016, it even reached 11.6 percent. More structurally, even during the economic boom between 2010 and 2014, the

¹ International Monetary Fund. 2016. *World Economic Outlook October 2016*. Report.

² World Bank. 2016. *Mongolia: Progress in Reducing Poverty and Shared Prosperity? Note*. Washington, DC: World Bank.



unemployment rate 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.

5. Rates of informality, unemployment, and/or inactivity are particularly elevated for a number of specific groups, including women, seasonal workers, rural-to-urban migrants, and particularly youth. Together with Indonesia and the Philippines, Mongolia is one of the three countries in the East Asia and Pacific Region where the problem of high youth unemployment is most acute. In urban areas—both Ulaanbaatar and provincial capitals or *aimag* centers—but more generally across all of Mongolia, a comparatively large share of young people are not in employment, education, or training. In 2013, this was the case for 21.1 percent of young people ages 15 to 29.³ Rates of long-term unemployment for youth are also elevated and there appears to be no clear path of youth transitioning from school to productive and secure work.

B. Sectoral and Institutional Context

6. Three significant constraints contribute to relatively poor labor market outcomes in Mongolia in general and for specific groups, such as youth or residents of Ulaanbaatar and other urban areas:

- (a) **Job-search constraints related to incomplete information and poor labor market transparency.** Many jobseekers have little information about their labor market prospects or the market itself and perceive 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.⁴
- (b) **A lack of technical and socio-behavioral skills.** The general level of formal education and school attendance in Mongolia is high. However, jobseekers' technical skills are often not in line with employers' requirements. A widespread lack of socio-behavioral skills is of particular concern. A plurality of employers bemoan a lack of creativity, innovation skills, time management skills, communication skills, leadership skills, social skills, adaptability, problem-solving skills, and teamwork skills among workers. Employers are also concerned about deficient technical skills, language skills, and information and communication technology (ICT) skills.⁵
- (c) **Limited labor demand.** There is a general dearth of job vacancies, in particular for youth and other vulnerable groups with little work experience. This constraint is especially acute during the current economic slowdown, but even before, 40 percent of unemployed youth were unemployed for more than two years; for 30 percent of youth, the average wait time for the first job was more than two years. 'Not enough jobs available' and 'no work experience'

³ World Bank. 2014. *East Asia Pacific at Work*. Regional Report.

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

⁵ World Bank. 2007. *Mongolia - Building the Skills for the New Economy*. Report.



were two out of three most frequently cited obstacles to finding a good job among both male and female youth in *aimag* centers and Ulaanbaatar.⁶

7. Women and men face many similar constraints and 73 percent of young men and 76 percent of young women believe that opportunities for labor market promotion and success are equal for men and women. Still, there are also some notable gender-specific constraints, which can explain why labor market outcomes are generally poorer for women. At 55.6 percent, women's labor force participation rate is lower than men's, which in the third quarter of 2016 stood at 67.9 percent. In 2009, only 27 percent of women with basic and secondary education were self-employed compared to 40 percent of men. As documented in a World Bank policy note, women in particular face greater barriers to evading a lack of labor demand by becoming self-employed or starting a microbusiness, often due to a lack of access to social or financial capital. However, the gender differences are not solely in men's favor; at 10.7 percent for men versus 7.9 percent for women, the unemployment rate was actually comparatively higher among men in the third quarter of 2016.⁷

8. Ultimately, many of Mongolia's labor market challenges are of structural nature and can best be solved by a vibrant and growing private sector that creates a sufficient number of productive and well-paying jobs. At the same time, as argued in the World Development Report 2013 on 'Jobs', 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.⁸

9. Internationally, it is best practice to address job-search constraints related to incomplete information through public employment services in partnership with employers and the provision and dissemination of labor market information and analysis. Public employment services can address job-search constraints by facilitating the matching of labor demand and supply and access to labor market information that can help jobseekers 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, training, and support for micro-entrepreneurship.

10. In recent years, the Government of Mongolia 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 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, a Law on Employment Promotion was adopted in 2011. The law 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,

⁶ The third frequently cited obstacle is 'not enough education' RAND Corporation. 2015. *Improving the Mongolian Labor Market and Enhancing Opportunities for Youth*. Report.

⁷ World Bank. 2013. *Mongolia: Gender Disparities in Labor Markets and Policy Suggestions*. Policy note.

A qualitative analysis of constraints underlying gender disparities in Mongolia's labor market is ongoing and will inform the refinement of project design and project implementation.

⁸ World Bank. 2012. *Jobs. World Development Report 2013*.



improve data and statistics on employment, and expand the scope of unemployment insurance.

11. In addition to a conducive legal environment, corresponding implementation systems are generally in place and can serve as a starting point for addressing some of Mongolia's most pressing labor-related constraints. With regard to public employment services, the MLSP—which was created by the merger of the Ministry of Labor (MOL) and the Ministry of Population Development and Social Welfare (MPDSW) in July 2016—has a comprehensive network of local offices that provide public employment services (labor and social welfare offices in *aimag* centers and districts of Ulaanbaatar, as well as the capital city labor department in Ulaanbaatar).⁹

12. In the area of labor market information and analysis, two offices that report to the MLSP, the General Office for Labor and Social Welfare Services (GOLSWS) 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 jobseekers, and beneficiaries of active labor market programs and also is the basis of Mongolia's labor market information system. 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.

13. In 2014, the Government of Mongolia spent MNT 49.8 billion (US\$27.4 million) on active labor market programs, locally known as employment promotion programs (EPPs). Currently there are seven EPPs. All EPPs are largely financed through the Employment Promotion Fund (EPF), implemented across the country in a uniform fashion and are generally renewed or reformed annually (see annexes 2 and 6 for details on the EPF). Two of the MLSP's flagship programs are the Program for Providing Employment Skills and Retaining Work Places and the Entrepreneurship Development Program. A central element of the Program for Providing Employment Skills and Retaining Work Places is an employment training program that equips jobseekers with technical skills during a six-to-eight week classroom-based training period. The Entrepreneurship Development Program provides support for micro-entrepreneurship, mainly by providing new and existing microenterprises with microloans. While prospective program beneficiaries are screened for their eligibility by the local labor and social welfare offices, banks determine the beneficiaries' creditworthiness and administer loans.¹⁰

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

- (a) Because of organizational, informational, and relational limitations to being more responsive to client demands, few unemployed jobseekers find work through labor and social welfare offices. Job counselors are overburdened with administrative tasks; there is little cooperation between public and private employment services; and information on job

⁹ 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.

¹⁰ Today, the EPF is largely financed through a fee that employers of foreign workers are obliged to pay. Because of these financing arrangements, funding of active labor market programs fluctuates significantly from year to year and is generally procyclical (as more foreign workers are hired during times of strong economic growth).



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 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 by youth and some other groups most in need of support.

C. Higher Level Objectives to which the Project Contributes

15. The project will contribute to realizing Mongolia's Sustainable Development Vision 2030. This stresses the formulation and implementation of policies and programs 'to support employment' and 'to reduce the unemployment rate'. It also explicitly mentions the need 'to train the younger generation with proper knowledge and skills to have a decent work and run a private business.' The project will also contribute to the Government Action Plan 2016–2020. Among other measures that are proposed to increase employment and improve social protection, the plan stipulates 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."

16. The project is closely aligned with the World Bank Group's Country Partnership Strategy (CPS) for Mongolia for the period FY2013–2017 (report number 67567-MN). In particular, it is aligned with the third pillar of the CPS on addressing vulnerabilities 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 Government of Mongolia 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 economic downturn has made it clear that while social assistance benefits that secure incomes need to be an integral part of a comprehensive social protective system that supports the poor, they need to be complemented by effective employment support policies and programs that improve employment outcomes.



II. PROJECT DEVELOPMENT OBJECTIVES

A. PDO

17. The Project Development Objective (PDO) is to provide jobseekers and micro-entrepreneurs in Mongolia with improved access to labor market opportunities.

18. The project puts a particular emphasis on supporting vulnerable groups. For the purposes of this 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/or (c) poor households as for instance measured by the Proxy Means Test (PMT) methodology. Based on the definition in Mongolia's Employment Promotion Law, the project defines 'jobseekers' as all those who are either (a) unemployed or (b) employed but seeking a new job. Enterprises of 'micro-entrepreneurs' have an invested capital and annual sales of up to MNT 50 million. '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 such as job vacancies or self-employment opportunities. In Mongolia's volatile macroeconomic environment, it is not possible to attribute improvements in long-term outcomes such as improved employment and earnings to the proposed activities.

B. Project Beneficiaries

19. Beneficiaries of the project will be jobseekers and micro-entrepreneurs in Mongolia. The project will finance activities in the entire territory of Mongolia with a focus on urban areas. Project activities will not be restricted to any particular group and will aim to improve the broader functioning of Mongolia's labor market. The support to specific EPPs will be focused on core vulnerable groups, including (a) 'citizens having difficulty finding employment' as defined in the Employment Promotion Law; (b) young people ages 18 to 34; and/or (c) poor households, for instance, those measured by the PMT methodology.¹¹ Equal representation of genders will be targeted as well. Appropriate outreach efforts will ensure that vulnerable groups, women, and the Kazakh-speaking minority are aware of and have access to the activities supported by the project.

C. PDO-Level Results Indicators

20. 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 completing an employment training program who demonstrate relevant skills in the training occupation

¹¹ The Employment Promotion Law defines a citizen having difficulty finding employment as someone (a) in inevitable need for additional employment services and assistance, (b) with disabilities, (c) who has just been released from prison, (d) who has just left an orphanage due to reaching working age,; or (e) who has been unemployed for more than six months.



- (c) Percentage of beneficiaries of micro-entrepreneurship support whose microenterprise is still in business, at least 6 months after receiving a microloan.

III. PROJECT DESCRIPTION

A. Project Components

21. The project consists of three components. Component 1 supports a comprehensive realignment of the current public employment service system to serve greater numbers of employers and jobseekers in a more client-driven service, 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. All components emphasize the specific constraints of youth and other vulnerable groups, include specific actions to address gender gaps on the labor market, and integrate the private sector into project activities in a hands-on way. Annex 1 presents a detailed description of project activities and annex 2 summarizes specific implementation arrangements.

Component 1. Supporting client-centric public employment services (US\$4.75 million)

22. Component 1 will address job-search constraints related to incomplete information and poor labor market transparency by supporting client-centric public employment services. The unifying and guiding principle for the component will be to empower job counselors to focus on clients (jobseekers, employers, students seeking career guidance, and so on) and their core functions of placement and acquiring new vacancies. This will enable public employment services to be both more efficient and effective in achieving quality job placements and in attracting more employers and more and higher-skilled job listings.

23. The component will operate on two levels. First, it will support the comprehensive upgrading of specific labor and social welfare offices. The comprehensive upgrading of specific labor and social welfare offices will be phased in office by office in a customized way and will eventually reach no less than 24 out of 32 labor and social welfare offices in Mongolia. It will include the following activities: (a) streamlined work organization of labor and social welfare offices (for example, administrative tasks will be reduced or shifted so that job counselors can focus on their core functions); (b) physical modernization of on-site offices to cater more effectively and efficiently to jobseekers, employers, and other clients; and (c) capacity strengthening of public employment services through technical assistance and staff training. Second, complementary systemic measures will improve the efficiency and coverage of the public employment services in partnership with private employment services. Complementary systemic measures will include (a) a functional review of public employment services' service standards, work processes, and performance measurement; (b) improved linkages between public and private employment services through an expansion of shared job vacancy listings and other activities; (c) systemic capacity strengthening through the participation of key Mongolian officials in relevant international forums and a study tour of Asian best practices; (d) strengthening of the MLSP's ICT-based job-matching systems to foster online and mobile use of job-matching functions and allow job counselors to concentrate on hard-to-place jobseekers; and (e) a communication/outreach campaign to advertise upgraded



services.¹²

24. To achieve these objectives, the component will finance consultants to support the functional review of public employment services; the development and implementation of streamlined work organization and service standards; the physical modernization of labor and social welfare offices 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. Also supported will be an in-depth review of IT-based job-matching systems, some follow-up activities, system modernizations on the recommendations of the in-depth review, and the development and implementation of cell phone text messaging and/or mobile application-based software to notify jobseekers of relevant job vacancies and permit key updates. 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 public employment services, particularly in developing economies with incomplete information and poor labor market transparency.

Component 2. Strengthening select active labor market programs (US\$17.25 million)

25. Component 2 will strengthen the design, relevance, and demand orientation of select active labor market programs. Based on international best practice examples and an assessment of local conditions, it will finance interventions to address the widespread lack of technical and socio-behavioral skills and of labor demand, in particular, among young people. The component will consolidate and improve activities currently financed through the existing Program for Providing Employment Skills and Retaining Work Places and the Entrepreneurship Development Program. It will have three subcomponents.

Subcomponent 2.1: Integrated employment training program

26. Subcomponent 2.1 will support an integrated employment training program that will have as its overarching objective, the alignment of training with actual labor demand. Studies find that such programs generally have high and stable returns over time with particularly significant effects for women.¹³ The employment training program will be implemented through performance-based contracting with largely private training providers and will comprehensively address the widespread lack of technical and socio-behavioral skills. The program will replace some existing training programs of the MLSP's Program for Providing Employment Skills and Supporting Workplaces and will be implemented in a way that bridges the labor market slowdown in the winter. It will include the following activities: (a) outreach, (b) selection of beneficiaries, (c) socio-behavioral skills training, (d) vocational training, (e) an internship, (f) independent examinations, (g) job-search training, (h) job intermediation, and (i) post-training support in the six months following training. Financing will be allocated to provide the various trainings; to support small grants for selected firms offering internships; for food and transportation allowances; and for capacity building for various MLSP offices and outreach, screening, and selection

¹² As the MLSP's ICT-based job-matching and performance monitoring systems are linked, this activity will also improve the MLSP's ability to monitor the performance of public employment services and EPPs. The selection and sequencing of labor and social welfare offices where comprehensive upgrading will take place will be based on a needs assessment and also consider the offices' willingness and readiness for the comprehensive upgrades.

¹³ Attanasio, Orazio, Arlen Guarín, Carlos Medina, and Costas Meghir. 2015. "Long Term Impacts of Vouchers for Vocational Training: Experimental Evidence for Colombia." Working Paper. National Bureau of Economic Research.



procedures.¹⁴

Subcomponent 2.2: Support for micro-entrepreneurs

27. Subcomponent 2.2 will support new opportunities for starting and growing a sustainable microenterprise with a focus on job creation through the provision of comprehensive financial and nonfinancial support.¹⁵ It addresses labor market constraints related to a lack of labor demand and more specifically to the development of a growing and productive microenterprise sector. Based on international evidence that providing a package of training and financing is most effective (especially for female micro-entrepreneurs), an extensive range of nonfinancial services will be integrated with access to affordable finance.¹⁶ This will also be a key differentiator compared to the type of support 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 linkages to be delivered on a flexible basis to meet beneficiary needs; (b) financial support in the form of microloans for new and existing microenterprises supplemented by interest rate relief for the most vulnerable beneficiaries;¹⁷ and (c) auxiliary technical assistance activities such as capacity building for MLSP staff and training providers and support for outreach, screening, selection, and curriculum development. The microloans will be administered by participating financial institutions (PFIs) in accordance with the World Bank's policies on financial intermediary financing (see annex 6).

Subcomponent 2.3: Employment promotion piloting program

28. Subcomponent 2.3 will support the implementation of a limited number of active labor market programs adequate and appropriate for the local context through grants to labor and social welfare offices. The employment promotion piloting draws on positive experiences with decentralization programs in other countries and will be implemented in an exploratory way and at a relatively small scale. Its objectives will be to (a) support interventions appropriate for the local labor market context (to complement the MLSP's other EPPs, which are all implemented across Mongolia in a uniform fashion); (b) reach young people and the most vulnerable; (c) promote gender equality on the labor market; and (d) encourage learning and evidence-based decision making. Subcomponent 2.3 will also implement auxiliary technical assistance, including capacity building for the staff of the MLSP.

¹⁴ The integrated employment training program of relatively short duration implemented through the proposed project will complement other government efforts for reforms in technical and vocational education and training (TVET) programs with a longer duration. In the employment training program, the matching of beneficiaries to firms offering internships will be the primary responsibility of beneficiaries and firms themselves, potentially with support from training providers and/or labor and social welfare offices.

¹⁵ According to the Employment Promotion Law, microenterprises can have invested capital and annual sales of up to MNT 50 million (US\$22,000 at current exchange rates). Most beneficiaries are expected to run much smaller microenterprises.

¹⁶ Cho, Yoonyoung, and Maddalena Honorati. 2014. *Entrepreneurship Programs in Developing Countries: A Meta Regression Analysis*. *Labour Economics*; World Bank. 2013. Buvinic, Maya, and Rebecca Furst-Nichols. "Promoting Women's Economic Empowerment - What Works?" World Bank working paper, World Bank, Washington, DC.

¹⁷ Interest rate relief will be administered by labor and social welfare offices and initially be available to 'citizens having difficulty finding employment' as defined in the Employment Promotion Law. Should legislative changes occur that allow the linkage of interest rate relief to other selection criteria (such as households' PMT scores) such criteria might be considered, subject to agreement between the MLSP and the World Bank.



Component 3. Facilitating labor market monitoring and analysis and project management (US\$3.00 million)

29. 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

30. 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 jobseekers and students making career choices, and directing policy makers in the evidence-based reform of education and labor programs. Subcomponent 3.1 will improve the scope, quality, and availability of labor market information and the production and dissemination of three types of labor market monitoring and analysis: (a) regular monitoring of labor market developments through a quarterly Labor Market Monitoring Bulletin; (b) policy-relevant labor analysis in the form of a Skills Demand Study and an additional labor-related analytical study on a topic to be selected by the Government (subject to no-objection by the World Bank); and (c) a rigorous impact evaluation of the support for micro-entrepreneurs provided as part of Subcomponent 2.2. The subcomponent will finance consultant support for the conceptualization and production of labor market monitoring and analysis products, dissemination activities, fieldwork required for the impact evaluation, and capacity building for LSPRI staff.

Subcomponent 3.2: Project management and monitoring

31. Subcomponent 3.2 will provide day-to-day implementation and operational support to the MLSP and the Project Implementation Unit (PIU) to be 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.

B. Project Cost and Financing

32. The lending instrument is Investment Project Financing. The total cost of the project is US\$25 million equivalent for a period of four years. This will be financed by an IDA credit to the Government of Mongolia of SDR 18.4 million (US\$25 million equivalent). The credit has a final maturity of 25 years including a grace period of five years. No withdrawal shall be made for payments made prior to the date of signature of the Financing Agreement, except that withdrawals up to an aggregate amount not to exceed US\$0.5 million may be made for payments made prior to this date but on or after the date six months prior to the date of signature of the Financing Agreement, for Category 1 expenditures. Table 1 summarizes the project costs and financing arrangements.¹⁸

¹⁸ While no direct counterpart funding is planned, the Government of Mongolia is expected to make available parallel funding of US\$4 million for the line of credit to PFIs provided as part of Subcomponent 2.2

**Table 1. Project Costs and Financing Arrangements**

Project Components	Project Cost (US\$, millions)	IDA Financing (US\$, millions)
1. Supporting client-centric public employment services	4.75	4.75
2. Strengthening select active labor market programs	17.25	17.25
3. Facilitating labor market monitoring and analysis and project management	3.00	3.00
Total Costs	25.00	25.00
Total Project Costs	25.00	
Total Financing Required	25.00	

C. Lessons Learned and Reflected in the Project Design

33. The project draws on the following significant lessons learned from World Bank projects in the area of employment support, analytical background work for this project, and international good practices:

- (a) Project success is primarily contingent on a strong country ownership and a sustained commitment to implementation. The project design is fully owned by the Government of Mongolia. This is evident from the high level of involvement and participation during project preparation.
- (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 actionable and implementable. The project will have three main components that will improve employment outcomes in a complementary way with clearly identified subcomponents and a straightforward implementation structure. The MLSP will be the sole implementing agency, together with the offices that report to it.
- (c) Public employment services can be a cost-effective way to improve employment outcomes.¹⁹ Component 1 will support improvements to both on-site public employment services and improvements in the information and job-matching online systems.
- (d) Performance-based contracting can assure that employment training providers stress practical training components and support the labor market integration of beneficiaries.²⁰

¹⁹ Lehmann, Hartmut. 2011. *Active Labor Market Policies: An Introduction into their Rationale and Evaluation (with an Emphasis on Transition Countries)*. PowerPoint slides.

²⁰ World Bank. 2015. "The Role of Skills Training for Youth Employment in Nepal: An Impact Evaluation of the Employment Fund." Results Paper. World Bank, Washington, DC.



Subcomponent 2.1 adheres to this lesson and also draws on Mongolia's experience with mobile training and its relatively vibrant scene of (mostly private for-profit) providers of employment training programs experienced in organizing training with advanced requirements such as the stipulation to implement competency-based curricula.

- (e) The impact of microloans is substantially reduced in the absence of business knowledge and confidence and of access to networks and markets.²¹ As international research and experience with microloans in World Bank operations shows, the integration of financial and nonfinancial support drives outcomes and has been made the centerpiece of Subcomponent 2.2.
- (f) 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.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

34. The MLSP will be the sole implementing agency, together with the offices that report to it (the GOLSWs, the LSPRI, and the labor and social welfare offices). A Project Steering Committee (PSC) headed by the State Secretary, MLSP, will be established at the MLSP for project oversight and a PIU, led by a Project Coordinator, will also be set up within the MLSP. The MLSP, through the PIU, will be responsible for overall coordination, results monitoring, and communicating with the World Bank on all fiduciary aspects. The GOLSWs will be involved in the implementation of all components and in particular, Subcomponent 2.3. Labor and social welfare offices will be responsible for implementing Component 1, Subcomponents 2.1, 2.2, and 2.3 on the ground. The LSPRI will be the primary implementing agency for Subcomponent 3.1. 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 training providers for the employment training of Subcomponent 2.1 and PFIs for the administration of microloans of Subcomponent 2.2 (annex 6 elaborates on the relevant World Bank policies on financial intermediary financing; as detailed in the annex, an on-lending agreement between the MOF and the MLSP will also document the relevant implementation arrangements for microloans).

35. The vast majority of the project activities under Component 2 will be implemented as part of the Government's existing EPF activities; hence essentially using country systems. Advance contribution to the EPF for financing agreed-upon activities will happen annually and will be subject to the World Bank's no-objection (see annex 2 and annex 6 for details on the EPF and the financial management[FM] section of annex for EPF-related disbursement, and flow-of-funds arrangements). Components 1 and 3 as well as capacity-building and research and monitoring-related activities to support implementation of the EPF

²¹ Cho, Yoonyoung, and Maddalena Honorati. 2014. *Entrepreneurship Programs in Developing Countries: A Meta Regression Analysis*. Labour Economics.



under Component 2 will be managed by the PIU.

36. 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 MLSP departments. 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.

37. The PIU 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) an FM specialist; (c) a procurement specialist; (d) an M&E specialist; (e) and other staff, including program officers responsible for the different components.

38. The PIU's responsibilities will include, but not be limited to, (a) overall management and implementation support of project activities; (b) coordination 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) 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

39. The project will provide institutional support and training to help the Government of Mongolia 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.

40. Overall responsibility for project monitoring, evaluation, and reporting will rest with the PIU. PRs showing progress toward achieving the project's development objectives 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

41. The project will be sustainable because of the Government of Mongolia's strong political and financial commitment and ownership. This is evident from the high level of involvement and participation during project preparation. The appointment of a technical working group with members from different departments and offices first from the MOL and later from the MLSP has ensured continuity during the time of administrative restructuring. 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.

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

43. Under Subcomponents 2.1 and 2.2, existing employment training and micro-entrepreneurship programs will be replaced by more demand-oriented and comprehensive interventions. This is expected to lead to a more sustainable and effective public training system 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 employment promotion piloting program. In addition, this program will foster innovation and learning and can be used as a laboratory for testing future active labor market programs.

44. Subcomponent 3.1 emphasizes building the capacity of the LSPRI to serve as a labor observatory. Activities supported by the component are explicitly designed to increase local capacity and to provide financial and technical support that will allow the LSPRI to leverage existing resources to take on a more client-oriented approach without creating unsustainable recurring costs. Moreover, the impact evaluation also financed by Subcomponent 3.1 will increase the knowledge about the effectiveness of one of the MLSP's flagship active labor market programs and will build support for evidence-based policy making.²²

D. Role of Partners

45. No financing of other international financial institutions or bilateral donors is envisaged. The World Bank has consulted with relevant development partners such as the Asian Development Bank (ADB), 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 Government of Mongolia'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.

²² The MLSP has a strong interest in using impact evaluations to better understand the impacts of activities supported through the project. As part of project implementation support, the World Bank will explore avenues for accessing external financing to conduct additional impact evaluations.



V. KEY RISKS

A. Overall Risk Rating and Explanation of Key Risks

46. Key risks have been identified and rated in the Systematic Operations Risk-Rating Tool (see the datasheet page 3). The overall risk for the project is rated as Moderate. Key risks are the political and governance risk, the macroeconomic risk, and the risk related to the institutional capacity for implementation.

47. **Political and governance risk.** This risk is Substantial. 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 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.

48. **Macroeconomic risk.** This risk is Substantial. Employment outcomes strongly depend on labor demand, that is, the number and quality of jobs that are created by Mongolia's private sector. In turn, the rate of private sector job creation is heavily influenced by Mongolia's pronounced cyclicity of economic activity. In this context, risk mitigation will consist primarily of designing the project in a way that is appropriate both during the current economic slowdown and the more positive economic environment forecast to come about in the medium term and strengthening the MLSP's capacity to flexibly respond to future cyclicalities in labor demand.

49. **Risk related to the institutional capacity for implementation.** This risk is also Substantial. The MLSP was only recently created by the merger of the MOL and the Ministry of Population Development and Social Welfare in July 2016. While some of the MLSP's relevant staff have experience in implementing World Bank lending operations, the MLSP as an institution has only limited experience in implementing World Bank lending projects. Key steps to mitigate the ensuing risks include the following elements. First, the project design includes implementation arrangements (such as the creation of a PIU and a PSC) 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 with regard to M&E, FM, and procurement activities.

VI. APPRAISAL SUMMARY

A. Economic and Financial Analysis

50. The project introduces a complementary set of components that addresses significant 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, the project will address the poverty-jobs nexus. 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 two 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 both approaches, IRRs are computed for a range of scenarios informed by the literature at large and context-specific information garnered from the labor force survey (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.

51. Quantifiable earnings effects of the more costly project components are positive and robust to a range of assumptions. The results for Component 1 indicate that the costs of the client-centric public employment services will be recouped through the increased earnings of beneficiaries within 6 to 12 years, yielding an IRR of 6 percent to 12 percent. For Subcomponent 2.1 (integrated employment training program), the IRR is estimated at between 14 percent and 28 percent, which results in a payback period of 3 to 5 years. For the micro-entrepreneurship support under Subcomponent 2.2, the IRR is estimated at between 15 percent and 46 percent and the payback period at two to four years.²³ In addition to the effects on earnings and the directly attributable effects of Component 1, Subcomponent 2.1, and Subcomponent 2.2, 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.

52. Public sector financing of the project is warranted both from an efficiency and an equity perspective. 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 public employment services can also be considered a public good and therefore warrants public financing. Effective employment training programs might not be possible without government financing because of coordination failures between jobseekers interested in the training and training providers and because such training programs have positive external effects that go beyond the benefits directly attributable to the training beneficiaries. Finally, without public financing of support to micro-entrepreneurship, credit constraints and asymmetric information might prevent potential micro-entrepreneurs from actually starting their own business. Concerning arguments related to equity, without public financing, effective

²³ 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*.



employment support might only be available for affluent and well-connected individuals. For instance, without public financing of employment services a very high proportion of job matches might happen through informal channels. This would reinforce disadvantages for those individuals who are less connected to the labor market to begin with (such as youth, women, the poor, and rural-to-urban migrants).

53. The World Bank will add value to the project's successful implementation through four channels. First, it will contribute knowledge on best practices and experiences from pertinent analytical and lending projects from around the world. Second, it will provide predictable, stable, and sustainable financing for active labor market programs to complement the more volatile and generally pro-cyclical existing funding through the Government. Third, the World Bank engagement will focus on areas that currently see relatively little attention from other development partners. Finally, the World Bank's support will foster the development of a strong M&E framework, which will allow precise monitoring of project outputs and outcomes and the design of a rigorous impact evaluation of the activities supported as part of Subcomponent 2.2.

B. Technical

54. 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 2016–2020. The project was prepared through a lengthy consultative process. Innovations—such as comprehensive upgrading of specific on-site labor and social welfare offices, performance-based contracting with employment training providers, or 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.

C. Financial Management

55. The project implementing agency, the MLSP, will be responsible for the overall project oversight and a PSC will be established at the MLSP. The PIU will be established under the PSC to carry out day-to-day implementation of the project. The project's FM, including the handling of World Bank loan proceeds, will be managed by the PIU. The World Bank, therefore, conducted the FM assessment at the MLSP and actions to strengthen the project's FM capacity have been identified. The FM assessment concluded that with the implementation of these proposed actions, the FM arrangements will satisfy the World Bank's requirements under OP/BP 10.00. Annex 3 of the PAD provides additional information on FM.

D. Procurement

56. The project implementing agency is the MLSP and it was agreed that the MLSP will be carrying out the procurement activities with the support of a PIU to be established specifically for this project. The PIU will be a working unit without any independent legal status and will be 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 and they will be hired as consultants by the Government and will be financed by this project.



57. The MLSP has experience in implementing donor-funded projects. However, it does not have any experience in executing a World Bank-funded project. In any case, this is not considered as a major issue, as the project is not going to be procurement intensive, the major portion of the project resources (around 70 percent) will be allocated to vocational training, allowances for trainees or microloans to self-employed micro-entrepreneurs. Therefore, the majority of contracts will be of relatively small value and of not much complexity.

58. An assessment of the capacity of the MLSP to implement procurement actions for the project was carried out in October 2016. A summary of the procurement capacity assessment and project procurement arrangements are provided in annex 2.

59. Procurement would be carried out in accordance with the World Bank's "Guidelines: Procurement of Goods, Works and Non-Consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers, published by the World Bank in January 2011 and revised in July 2014; and "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" dated January 2011 and revised July 2014.

60. "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants", dated October 2006 and revised January 2011, shall apply to the project

E. Social (including Safeguards)

61. **Citizen engagement.** The project will promote feedback mechanisms, consultations, and transparency. Specific activities to foster citizen engagement will include (a) the introduction of two intermediate results indicators to measure feedback from beneficiaries (on the percentage of beneficiaries satisfied with project-financed employment training and micro-entrepreneurship support, respectively); (b) regular consultations with stakeholders to ensure that the project is fulfilling its objectives; and (c) a strong focus on capacity building and institutional strengthening.

62. **Gender focus.** The project will emphasize specific actions to address the gender gaps identified in Mongolia's labor market, including the following: (a) the project's main activities build on programs that successfully strengthen women's opportunities in Mongolia's labor market; (b) appropriate outreach efforts will ensure that women are aware of and have access to the activities supported by the project; (c) the micro-entrepreneurship support will be a combination of financial support for micro-entrepreneurs with nonfinancial interventions, which has been demonstrated to have a particularly positive impact on women; (d) the employment promotion piloting program for local labor exchange offices will prioritize supporting proposals that have the promotion of gender equality on the labor market as an explicit objective; and (e) an analytical study on employment of women and vulnerable groups will potentially be financed. To monitor the outcomes from these specific actions, in the results framework the PDO Indicator "Beneficiaries receiving labor intermediation services in an upgraded labor and social welfare office" and the Intermediate Results Indicator "Beneficiaries of Labor Market programs" are disaggregated by gender.

63. The project will not result in significant adverse social impacts such as physical relocation of people or acquisition of private lands. Likewise, restriction of access to national parks or losses of income are also not expected.



64. However, a potential risk of exclusion may exist for rural-to-urban migrants who have resettled in urban areas and other vulnerable groups (for example, female and male heads of households and marginalized youth). Hence, the following measures will be implemented to facilitate improved participation of rural-to-urban migrants and other vulnerable groups in the supported EPPs: (a) organize outreach efforts to inform and to raise awareness of EPPs for target groups; (b) provide food and transportation allowance to make up the income loss for beneficiaries taking part in the employment promotion activities of Subcomponent 2.1; and (c) encourage employment promotion pilot programs enabling young people and the most vulnerable to benefit from the employment supports.

F. Environment (including Safeguards)

65. The policy OP/BP 4.01 (Environmental Assessment) is considered triggered and the project is categorized as B.

66. Under Component 1, the project will finance physical upgrades of existing labor and social and welfare offices (up to 32). Physical upgrades will include small-scale interior remodeling. Potential environmental impacts during short remodeling periods include noise, dust, and solid waste generation that are sometimes associated with minor civil work activities. These impacts are expected to be small and localized and can be mitigated by incorporating good civil work practices. If existing labor 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. Under Component 2, the project will provide financial support and a range of nonfinancial services to micro-entrepreneurs. Beneficiaries will be concentrated mainly in the commerce, service, and small-scale manufacturing sectors. The project is not expected to finance microenterprises that pose substantial environmental risks. No significant, irreversible, or major environmental impacts are anticipated. Depending on the exact sector, some microenterprises in the commerce, service, and small-scale manufacturing sectors may produce noise, congestion, and litter. Safeguarding the well-being of workers and family members might also be a concern. The potential environmental impacts by microenterprises are seen to be site-specific and readily managed with good practices during the implementation of the project.

67. An Environmental and Social Management Framework (ESMF) has been developed. For Component 1, it provides Environmental Code of Practices for small-scale interior remodeling of existing labor and social and welfare offices, including asbestos management in case existing buildings to be remodeled under the project have asbestos materials. For Component 2, the ESMF includes procedures to screen microbusinesses' environmental impacts, to eliminate applications that are ineligible, and to require mitigation measures when appropriate. The ESMF provides general environment, health, and safety (EHS) principles for microenterprises and sector-specific EHS guidelines for common types of microbusinesses identified during project preparation. Additional sector-specific EHS guidelines for microbusinesses identified during project implementation will be added to the ESMF as needed.

68. Consultations with relevant stakeholders took place in the Ulaanbaatar district of Nalaikh and Tuv *aimag* on November 17, 2016. The final ESMF was locally disclosed on December 1, 2016, on the website <http://www.khun.gov.mn/>. On the same day, the ESMF was disclosed on the Bank's external website.

69. The MLSP will be responsible for the implementation of the project, including overall



coordination, results monitoring, and communicating with the World Bank on all fiduciary and safeguard aspects. It will be supported by the PIU, which will carry out the day-to-day implementation of the project. The PIU staff should be appropriately trained to effectively supervise the implementation of the ESMF, including through a selective monitoring of the screening and selection of microenterprises by labor and social welfare offices, if appropriate, with support from the GOLSWs. In addition to the ESMF, the project will also include technical assistance and capacity-building activities with project budget allocated where appropriate to ensure that environmental and social safeguards are implemented. Annex 2 provides details.

70. The project has been screened for climate and disaster risks. While some project locations are expected to be slightly or moderately exposed to climate and geophysical hazards now or in the future, the project's overall outcome / service delivery is not expected to be exposed to climate and disaster risks.

G. Other Safeguard Policies (if applicable)

71. Not applicable.

H. World Bank Grievance Redress

72. 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



VII. RESULTS FRAMEWORK AND MONITORING

Results Framework

COUNTRY : Mongolia

Mongolia Employment Support Project

Project Development Objectives

The project development objective (PDO) is to provide jobseekers and micro-entrepreneurs in Mongolia with improved access to labor market opportunities.

Project Development Objective Indicators

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Name: Beneficiaries receiving labor intermediation services in an upgraded labor and social welfare office (overall)		Number	0.00	64100.00	Bi-Annual	MLSP administrative data	MLSP
Beneficiaries receiving labor intermediation services in an upgraded labor and social welfare office (female)		Number	0.00	30000.00	Bi-Annual	MLSP administrative data	MLSP

Description: Number of beneficiaries who have received labor intermediation services in an upgraded labor and social welfare office where comprehensive upgrades encompass (i) streamlined work organization; (ii) physical modernization; and (iii) capacity strengthening through technical assistance and staff training. Indicator is cumulative.



Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
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Name: Beneficiaries completing an employment training program who demonstrate relevant skills in the training occupation

Percentage

0.00

70.00

Annual

Independent examinations

MLSP

Description: The percentage of individual beneficiaries who have completed the socio-behavioral skills training, vocational training and an internship organized as part of the employment training program who pass some form of independent examinations that certifies skills that have been acquired as part of the training. Eventually, the recently established Information and Assessment Center should take over the conduct of examinations. Indicator is annual.

Name: Beneficiaries of micro-entrepreneurship support whose micro-enterprise is still in business, at least 6 months after receiving a micro-loan

Percentage

0.00

70.00

Annual

MLSP administrative data

MLSP

Description: Percentage of beneficiaries of micro-entrepreneurship support whose micro-enterprise is still in business, at least 6 months after receiving a micro-loan. Indicator is annual.

Intermediate Results Indicators

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Name: Beneficiaries of Labor	✓	Number	0.00	83300.00	Bi-annual	MLSP administrative data	MLSP



Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Market programs (number)							
Beneficiaries of Labor Market programs - Female (number)	✓	Number	0.00	41000.00	Bi-annual	MLSP administrative data	MLSP
Description: This indicator measures the number of individual beneficiaries covered by passive and active labor market programs (ALMPs) – including entrepreneurship programs - supported by the Bank.							
Name: Labor and social welfare offices with comprehensive upgrades completed		Number	0.00	24.00	Bi-annual	MLSP administrative data	MLSP
Description: Number of labor and social welfare offices with comprehensive upgrades completed where comprehensive upgrades encompass (i) streamlined work organization; (ii) physical modernization; and (iii) capacity strengthening through technical assistance and staff training. Indicator is cumulative.							
Name: Number of job vacancies posted in the MLSP's Employment Registry and Information Database		Text	Baseline to be established in year 1	Baseline + 30 %	Annual	MLSP administrative data	MLSP
Description: Number of job vacancies posted in the MLSP's Employment Registry and Information Database. Indicator is annual.							
Name: Number of job vacancies viewed electronically		Text	Baseline to be established in year 1	Baseline + 30 %	Annual	MLSP administrative data	MLSP



Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Description: Number of vacancies viewed electronically, either on the MLSP's website or through mobile systems. Indicator is annual.							
Name: Beneficiaries satisfied with project financed employment training		Percentage	0.00	80.00	Annual	Beneficiary survey	MLSP potentially with assistance from survey research firm
Description: Percentage of beneficiaries who report being somewhat or very satisfied in a survey conducted after they complete employment training program. Note that the training cycle will go across two calendar years. Indicator is annual.							
Name: Beneficiaries satisfied with project financed micro-entrepreneurship support		Percentage	0.00	80.00	Annual	Beneficiary survey	MLSP potentially with assistance from survey research firm
Description: Percentage of beneficiaries who report being somewhat or very satisfied in a survey conducted after they receive micro-entrepreneurship support. Indicator is annual.							
Name: Volume of World Bank funding for lines of credit		Amount(US D)	0.00	6440000.00	Bi-annual	MLSP administrative data	MLSP
Description: Volume of World Bank funding for lines of credit disbursed to participating financial institutions. Indicator is cumulative.							
Name: Outstanding micro-		Amount(US	0.00	5152000.0	Bi-annual	Participating financial	Participating



Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
finance loan portfolio		D)		0		institutions' administrative data	financial institutions
Description: Outstanding (i.e. not yet repaid or written off) amount of the micro-finance loan portfolio for all participating institutions backed by project-funded lines of credit. Indicator is annual.							
Name: Grants to labor and social welfare offices issued		Number	0.00	12.00	Annual	MLSP administrative data	MLSP
Description: Number of grants to labor and social welfare offices issued. Indicator is cumulative.							
Name: Labor Market Monitoring Bulletins released		Number	0.00	10.00	Thrice (in YR2, YR3 and YR4)	MLSP website	MLSP
Description: Number of releases of Labor Market Monitoring Bulletin. Indicator is cumulative.							
Name: Skills Demand Study released		Number	0.00	1.00	Once (in YR2)	MLSP	MLSP
Description: Number of Skills Demand Studies completed and published. Indicator is cumulative.							



Target Values

Project Development Objective Indicators

Indicator Name	Baseline	YR1	YR2	YR3	YR4	End Target
Beneficiaries receiving labor intermediation services in an upgraded labor and social welfare office (overall)	0.00	0.00	6400.00	25600.00	64100.00	64100.00
Beneficiaries receiving labor intermediation services in an upgraded labor and social welfare office (female)	0.00	0.00	3000.00	12000.00	30000.00	30000.00
Beneficiaries completing an employment training program who demonstrate relevant skills in the training occupation	0.00	40.00	50.00	60.00	70.00	70.00
Beneficiaries of micro-entrepreneurship support whose micro-enterprise is still in business, at least 6 months after receiving a micro-loan	0.00	55.00	60.00	65.00	70.00	70.00

Intermediate Results Indicators

Indicator Name	Baseline	YR1	YR2	YR3	YR4	End Target
Beneficiaries of Labor Market programs (number)	0.00	4900.00	16200.00	40300.00	83300.00	83300.00
Beneficiaries of Labor Market programs -	0.00	2200.00	7550.00	19300.00	41000.00	41000.00



Indicator Name	Baseline	YR1	YR2	YR3	YR4	End Target
Female (number)						
Labor and social welfare offices with comprehensive upgrades completed	0.00	0.00	4.00	12.00	24.00	24.00
Number of job vacancies posted in the MLSP's Employment Registry and Information Database	Baseline to be established in year 1	Establish baseline	Baseline + 10 %	Baseline + 20 %	Baseline + 30 %	Baseline + 30 %
Number of job vacancies viewed electronically	Baseline to be established in year 1	Establish baseline	Baseline + 10 %	Baseline + 20 %	Baseline + 30 %	Baseline + 30 %
Beneficiaries satisfied with project financed employment training	0.00	65.00	70.00	75.00	80.00	80.00
Beneficiaries satisfied with project financed micro-entrepreneurship support	0.00	65.00	70.00	75.00	80.00	80.00
Volume of World Bank funding for lines of credit	0.00	1610000.00	4830000.00	6440000.00	6440000.00	6440000.00
Outstanding micro-finance loan portfolio	0.00	1288000.00	3864000.00	5152000.00	5152000.00	5152000.00
Grants to labor and social welfare offices issued	0.00	3.00	6.00	9.00	12.00	12.00
Labor Market Monitoring Bulletins released	0.00	0.00	2.00	6.00	10.00	10.00
Skills Demand Study released	0.00	0.00	1.00	1.00	1.00	1.00

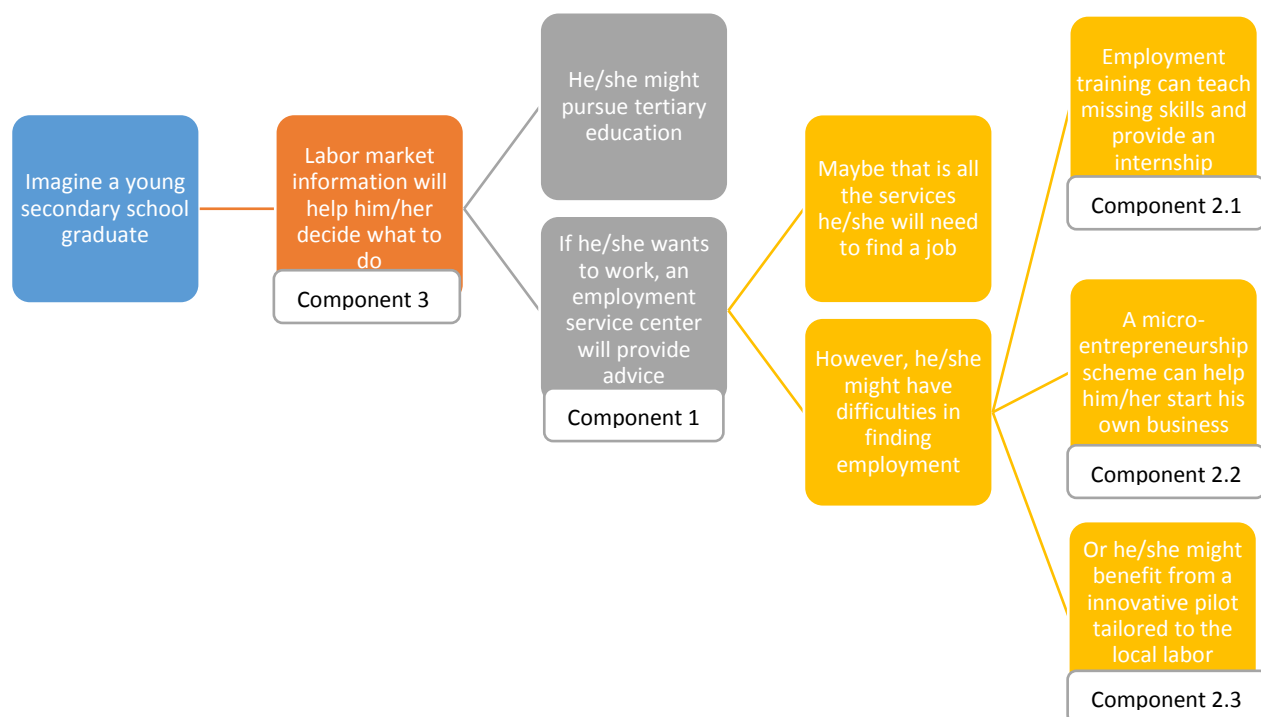


ANNEX 1: DETAILED PROJECT DESCRIPTION

COUNTRY: Mongolia Mongolia Employment Support Project

1. The project consists of three components. Component 1 supports a major realignment of the current public employment service system to serve greater numbers of employers and jobseeker students seeking career advice and other clients in a more client-driven service with greater collaboration with private employment services. Component 2 will strengthen the design, relevance, and demand orientation of select active labor market programs. Component 3 plans to improve the quality and availability of labor market information and analysis to help institutional and noninstitutional actors make informed decisions and provides support for strengthening M&E and management of the project. Figure 1 shows the key interventions under each component and illustrates functional linkages between them.

Figure 1. Illustration of Functional Linkages between Project Components



2. **Target population.** Beneficiaries of the project will be jobseekers and micro-entrepreneurs in Mongolia. The project will finance activities in the entire territory of Mongolia with a focus on urban areas. Project activities will not be restricted to any particular group and will aim to improve the broader functioning of Mongolia's labor market. The support to specific EPPs will be focused on core vulnerable groups, including (a) 'citizens having difficulty finding employment' as defined in the Employment Promotion Law; (b) young people ages 18 to 34; and/or (c) poor households (as for instance measured by



PMT scores).²⁴ Equal representation of genders will be targeted as well. Appropriate outreach efforts will ensure that vulnerable groups, women, and the Kazakh-speaking minority are aware of and have access to the activities supported by the project.

Component 1. Supporting client-centric public employment services (US\$4.75 million)

3. **Objectives.** The objective of this component is to support greater numbers of jobseekers to achieve higher rates of job placement through improved efficiency and coverage of the public employment services in partnership with the private sector. Internationally, job-search constraints related to incomplete information and poor labor market transparency are frequently improved through public employment services but currently job counselors in Mongolia are overburdened with administrative tasks that prevent them from fulfilling their core functions of placement and acquiring new vacancies. Moreover, there is little capacity to focus on the neediest clients as easier-to-serve clients can use few properly functioning self-service or online services. The unifying and guiding principle for the component will be to empower and train job counselors to focus on clients (jobseekers, employers, students seeking career guidance, and so on) and their core functions of placement and acquiring new vacancies. This will enable public employment services to be both more efficient and effective in achieving quality job placements and in attracting more employers and more and higher-skilled job listings. Improved efficiency and coverage of employment services will also support the creation of a national labor market with deeper connections between employers and jobseekers. Currently, public employment services serve a principally low-skilled population but even in such cases, information and employer contacts are limited to local areas and rarely include larger employers while private online services and private labor exchanges focus on more specialized markets. A particularly underserved population are youth looking for the first employment.

4. Against this backdrop, the component will support a comprehensive and mutually reinforcing set of activities to upgrade specific on-site labor and social welfare offices. The upgrading will be phased in office by office over the four years of this project in a customized way and based on international best practice strategies in employment services for developing economies. It will include the following activities: (a) streamlined work organization of labor and social welfare offices with a range of new service standards, (b) physical modernization of on-site offices, and (c) capacity strengthening of public employment services. The component also supports extension of modernizations to private labor exchanges and complementary systemic measures to improve the efficiency and coverage of the public employment services in partnership with private employment services. The combination of the modernizations are to work in an integrated way to improve the broader functioning of public employment services in Mongolia and to lead to an upgrading no less and ideally significantly more than 24 out of 32 labor and employment offices.²⁵

²⁴ The Employment Promotion Law defines a citizen having difficulty finding employment as someone (a) in inevitable need for additional employment services and assistance, (b) with disabilities, (c) who has just been released from prison, (d) who has just left an orphanage due to reaching working age, or (e) who has been unemployed for more than six months. Labor force participation profiles for Mongolia show that women under 35 are those most likely to drop out of the labor force to form a family.

²⁵ The selection and sequencing of labor and social welfare offices where comprehensive upgrading will take place will be based on a needs assessment and also consider offices' willingness and readiness for the comprehensive upgrades.



5. **Streamlined work organization and improved services of labor and social welfare offices.** A central objective of the component will be to enable job counselors to focus on placement and new vacancies. Based on a functional review of the current network of public employment services, service standards, streamlined work processes, and performance measurement will be designed and implemented regarding areas such as (a) administrative processes and responsibilities, (b) services and counselling to clients, (c) performance indicators and incentives, and (d) standards for professional development for job and career counselors. This will strengthen the efficient and effective delivery of services, focus staff time on increasing job vacancy listings and placement instead of administrative duties, and facilitate management across offices to promote a national job market.

6. **Physical modernization of on-site offices.** In concert with the streamlining of their work organization and improvements in ICT systems and human resources, public sector offices will be upgraded on a phased basis, drawing on new service standards to reflect 'client-centered' approaches of job counselors and other staff: on-site self-registry (through a bank of computers and assistance with self-registry and search), immediate attention to clients (through receptionist positions and functions/work flow), and remodeled spaces for job-search training/workshops and one-on-one counselling. Resources will also include marketing and promotion activities for the newly upgraded offices as well as expanded participation in off-site activities such as job fairs and industry events. The upgrades will include linkage with local private labor exchange offices and youth employment centers in universities and TVET schools as part of the strategy to broaden access to employment services, increase job vacancy listings, and deliver higher quality services to jobseekers. Joint promotional activities will be organized and promotional material and ICT equipment placed in private labor exchange offices and youth employment centers to allow easy access to the MLSP's job listings outside of labor and social welfare offices.

7. **Capacity strengthening of public employment services.** To support the practical implementation of streamlined work organization and stronger one-on-one job counselling, the project will develop and implement key training of job counselors (for example, in diagnosis/assessment of jobseeker profiles and assisting employers) and finance technical exchanges oriented to implementing key innovations (for example, work reorganization and networking with private providers). The project will also support additional technical personnel to implement key reforms and train personnel in new systems and standards. Resources will also be provided to develop industry specializations among labor and social welfare offices. Training will be open for local private intermediation services on a demand-driven basis to support exchanges between public and private sector job counselors.

8. **Complementary systemic measures to improve performance.** To complement the upgrading of specific on-site labor and social welfare offices and job counselors, the project will support (a) a functional review of public employment services supporting the modernization strategy, (b) improved linkages between public and private employment services through an expansion of shared job vacancy listings and other activities, (c) systemic capacity strengthening through the participation of key Mongolian officials in relevant international forums and a study tour of Asian best practices, (d) a strengthening of the MLSP's IT-based job-matching systems, and (e) a communication/outreach campaign to advertise upgraded services. The strengthening of the ICT-based job-matching system will include an in-depth review of the MLSP's job-matching functions (including relevance of information and indicators to market needs and usage, data entry, ICT system, data analysis, production of outputs, and use of outputs by institutional users and clients such as jobseekers and employers); the selection of follow-up activities on the recommendations of the in-depth review; and the development and implementation of cell phone text



messaging and/or mobile application-based software to notify jobseekers of relevant job vacancies and permit key updates. As the MLSP's job-matching and performance monitoring systems are linked, its ability to monitor the performance of public employment services will also be improved (through the launch of quarterly monitoring reports and annual rapid satisfaction surveys of clients). With regard to sequencing, both the functional review of public employment services and the review of the MLSP's job-matching functions will largely precede the upgrade of specific on-site labor and social welfare offices and other activities.

Component 2. Strengthening select active labor market programs (US\$17.25 million)

Subcomponent 2.1: Integrated employment training program (US\$7.85 million)

9. **Objectives.** Subcomponent 2.1 will support an integrated employment training program that will have as its overarching objective, the alignment of training with actual labor demand. The program will address some of the most pressing labor market constraints of the target populations. As documented in employer and employee surveys, these include, in particular, insufficient socio-behavioral skills (such as teamwork skills, the ability to take responsibility for assigned tasks, and good attitude toward work) and technical skills, a lack of labor demand, and a lack of work experience. The program will build on implementation arrangements and replace some existing training programs of the Program for Providing Employment Skills and Supporting Workplaces. It will be implemented once every year in a way that bridges the labor market slowdown in the winter.

10. **Geographic coverage.** The program will be implemented in all 9 districts of Ulaanbaatar and all 21 *aimag* centers (partly in the form of mobile training). Financing and other support will be allocated across districts and *aimags* based on a formula that considers variables such as population, (youth) unemployment, economic situation, and past demand for employment training and will be documented in the EPF manual. The program will be open to beneficiaries from outside of Ulaanbaatar and *aimag* centers but there will be no direct implementation in the countryside because of the unique nature of labor market challenges.

11. **Target population, screening, and selection.** The program will be open to all jobseekers. It will aim to balance selecting applicants based on their vulnerability and likelihood to benefit from the program. A points scoring system to be documented in the EPF manual will be used such that the applicants who meet the highest number of selection criteria will qualify first. Selection criteria related to vulnerability will include items such as (a) 'citizens having difficulty finding employment' as defined in the Employment Promotion Law, (b) young people ages 18 to 34, (c) those that are not college or university graduates, and (d) and poverty status (as for instance measured by PMT scores). Equal representation of genders will also be targeted. To assess the applicants' likelihood to benefit from the program, an in-person interview with senior representatives from the labor and social welfare office and if feasible, local businesses and training providers may be organized (to closely involve the private sector as partner). Labor and social welfare offices will manage the screening and selection process on an annual basis in or around September and allocate selected candidates to training providers (considering their preferences). Information on selected candidates will be widely disclosed.

12. **Outreach.** Labor and social welfare offices will lead systematic outreach activities to ensure that vulnerable groups (such as long-term unemployed, social welfare recipients, households with low PMT



scores, rural-to-urban migrants, and women) are aware of the employment training program. Appropriate measures to assure access by the Kazakh-speaking minority will also be implemented.

13. **Activities.** The employment training program will include the following activities: (a) socio-behavioral skills training, (b) vocational training, (c) an internship, (d) independent examinations, (e) job-search training, (f) job intermediation, and (g) post-training support in the six months following training. About 16,000 beneficiaries are expected to benefit from the training over the four years of the project. A number of auxiliary activities will also be supported as part of Subcomponent 2.1, including (a) allowance to subsidize necessary food and transportation expenses during the training period, (b) small grants for some enterprises employing interns, (c) training and capacity-building support for MLSP staff, (d) hiring of consultants to drafting of performance-based contracts and implementation support, and (e) capacity building for training providers.

14. **Training content.** The training will be substantive enough to enable a significant and sustainable impact on the employment trajectories of beneficiaries and allow a substantial share of beneficiaries to reach Level II qualification as defined in the Mongolian Qualifications Framework. The exact duration of the training program will vary by training occupation; it will last between 19 and 25 weeks. For the entire duration of the employment training, each beneficiary will receive a small allowance to subsidize necessary food and transportation expenses. Training providers will be responsible for conducting formal trainings, facilitating the placement of beneficiaries into internships, assisting beneficiaries with finding employment at the conclusion of the training, and regularly following up with beneficiaries and their employers during the first six months after the end of the training.²⁶

15. The first three days of the employment training program will consist of a socio-behavioral skills training to kick-start learning (and practicing) of work ethic, teamwork, problem solving, and other socio-behavioral skills necessary for the work place. While formal socio-behavioral skills training will only take three days, the practical application of these skills will be emphasized during the entire employment training. After the formal socio-behavioral skills training, beneficiaries will go through a classroom-/workshop-based vocational training program of 8 to 12 weeks. This training will be similar to existing vocational/mobile training programs but of longer duration. Precise technical training duration will vary by occupational area. The vocational training will emphasize competency-based training curricula, as required by Mongolia's National Qualification Framework.

16. After the vocational training, beneficiaries will gain real-world work experience through an internship of 10 to 12 weeks depending on occupational area. To strengthen the lessons learned in the socio-behavioral skills training module, the vocational training and the internship will emphasize appropriate behaviors (in the classroom and the workplace, respectively). Training providers will be responsible for facilitating the placement of beneficiaries into internships. A small grant will be availed to selected firms providing internships to cover the cost of materials used by interns.²⁷

²⁶ In terms of post-training support, training providers will be encouraged to cooperate with labor and social welfare offices.

²⁷ It is envisaged to gradually rely less and less on such grants over the course of the proposed operation as the pool of firms providing internship increases and to gradually withdraw grants on a sector-by-sector basis. The matching of beneficiaries to firms offering internships will be the primary responsibility of beneficiaries and firms themselves, potentially with support from training providers and labor and social welfare officers. No formal procurement of firms offering internships will happen.



17. Independent examinations will be conducted to certify the skills that have been acquired as part of the training. To ease beneficiaries' transition to the labor market a two-day job-search training will be organized by the training provider and job intermediation services will be provided by the relevant labor and social welfare office. Beneficiaries who already have a secure job offer at the end of the internship might skip the job-search training and labor intermediation intervention but will be strongly encouraged to have their skills certified. Training providers will follow up with all beneficiaries and their employers during at least six months after the end of training in a structured and regular fashion and help solve any issues that might occur. In case beneficiaries become self-employed, no follow-up with employers will take place.

18. **Performance-based contracting.** Subcomponent 2.1 will introduce performance-based contracting with training providers. It is expected that the pool of training providers will, for the most part, be similar to that of providers already active in the Program for Providing Employment Skills and Supporting Workplaces or other programs implemented by the MLSP because this relatively vibrant set of training providers are experienced in organizing trainings with advanced requirements such as the stipulation to implement competency-based curricula. Before the start of every training cycle, a competitive and transparent selection process of training providers will be conducted that will consider items such as formal qualifications, experience, previous success in providing high-quality training, and costs. Precise mechanisms for selecting training providers and training occupations will be specified in the EPF manual. The project will emphasize a selection of occupations that is responsive to local labor demand and includes a sufficient range of different occupations to consider the high level of occupational segregation by gender.²⁸

19. Selected training providers will sign a performance-based contract and part of their payments will be based on the meeting of one or several performance-based targets. A number of alternative performance targets for training providers are conceivable such as the placement of beneficiaries into internships, the successful and independent certification of qualifications, the placement of beneficiaries into employment, or a high satisfaction of beneficiaries.²⁹ Monitoring of performance targets will be emphasized, and over the course of the project, performance targets may move more and more from outputs to outcomes and impacts. It is envisaged that performance-based payments will encompass approximately 20 percent to 30 percent of the overall value of the contract. Potentially, performance-based payments might be differentiated by beneficiary groups to encourage attention on the hardest-to-place beneficiaries.

20. **M&E.** Subcomponent 2.1 will emphasize M&E. This will entail close monitoring of the performance of training providers, introduction of regular tracer studies of beneficiaries, and regular satisfaction surveys both of employers and beneficiaries. It is envisaged that rapid satisfaction surveys of beneficiaries will take place annually and tracer studies of beneficiaries as well as employer satisfaction surveys at least every two years.

²⁸ The Skills Demand Study to be supported by Subcomponent 3.1 will be a valuable input for determining the specific local labor demand for different occupations. See World Bank. 2013. *Mongolia: Gender Disparities in Labor Markets and Policy Suggestions*. Policy note for evidence on occupational segregation by gender.

²⁹ Performance targets will be set in a way that does not punish training providers when beneficiaries accept a job during the training period, for instance, following vocational training but without having completed the internship.



Subcomponent 2.2: Support for micro-entrepreneurs (US\$9.60 million)

21. **Objectives.** Subcomponent 2.2 will support new opportunities for starting and growing a sustainable microenterprise with a focus on job creation through the provision of comprehensive and flexible support. According to Mongolia's Employment Promotion Law, microenterprises are business entities with invested capital and annual sales of up to MNT 50 million (approximately US\$22,000 at current exchange rates) and most project beneficiaries are expected to run microenterprises that are much smaller still. The component addresses labor market constraints related to a lack of labor demand and more specifically to the development of a growing and productive microenterprise sector because of financial and nonfinancial constraints.³⁰ The integration of a more extensive range of nonfinancial services with access to affordable finance available to both new and existing micro-entrepreneurs will be a key differentiator compared to the type of support currently available in Mongolia, including through the existing Entrepreneurship Development Program.

22. **Geographic coverage.** The program will be implemented in all 9 districts of Ulaanbaatar and all 21 *aimag* centers. Financing and other support will be allocated across districts and *aimags* based on a formula that considers variables such as population, (youth) unemployment rates, economic situation, and past demand for entrepreneurship support; these criteria will be documented in the EPF manual. The program will be open to beneficiaries from outside of Ulaanbaatar and *aimag* centers but there will be no direct implementation in the countryside because of the different nature of labor market challenges.

23. **Target population.** The program will be open to all those who are either jobseekers or micro-entrepreneurs. The aim will be to balance selection criteria related to vulnerability and the applicant's likelihood to benefit from the micro-entrepreneurship support. Priority will be given to selection criteria related to 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) TVET, college or university graduates, and (d) poverty status (as for instance measured by PMT scores).³¹ Additional selection criteria to capture the likelihood to benefit from the micro-entrepreneurship support will be (a) entrepreneurial aptitude and (b) job creation potential. Because the strengthening of women's opportunities has been identified as a key policy recommendation for addressing gender disparities in labor market outcomes, equal representation of genders will also be targeted in addition to an increasing focus on supporting new compared with existing micro-entrepreneurs.³² About 4,800 beneficiaries are expected to benefit from the program. A point-scoring system to be documented in the EPF manual will be introduced to select beneficiaries according to priority and additional selection criteria.³³

³⁰ Financial constraints include prohibitively high interest rates and collateral requirements for vulnerable groups while nonfinancial constraints encompass the absence of business knowledge or access to markets and other factors.

³¹ The upper age limit of 34 years partly reflects the common practice in Mongolia to include those ages 18 to 34 in EPPs targeting young people and the fact that globally younger adults, ages 25 to 34, display the highest early stage entrepreneurial intention and start-up activity.

Global Entrepreneurship Monitor. 2015. *Global Entrepreneurship Monitor Report 2015/16*.

³² World Bank. 2013. *Mongolia: Gender Disparities in Labor Markets and Policy Suggestions*. Policy note.

³³ Microenterprises include partnerships and cooperatives. Although not actively encouraged, access by self-organized groups of beneficiaries will not be prohibited. Beneficiaries of the training program provided as part of Subcomponent 2.1 will be eligible to apply for Subcomponent 2.2 subject to the same eligibility, prioritization, and selection criteria as other applicants.



24. **Screening and selection.** Labor and social welfare offices will manage the screening and selection process on a biannual basis in or around April and September.³⁴ The process will be overseen by a Selection Panel composed of senior representatives from the labor and social welfare offices, local businesses, youth/entrepreneurship NGOs, high-performing alumni, and PFIs with a suggested composition of five to seven members. It is envisaged that screening and selection will include three phases:

- (a) First, labor and social welfare offices will screen applications according to the vulnerability-based priority criteria. Applicants with scores above a cutoff will be longlisted and attend the relevant pre-loan training to increase their business awareness, knowledge, and skills and to help them develop a viable business plan. The offices will also facilitate counselling to longlisted applicants in preparation for the next phase.
- (b) On completion of the relevant pre-loan training, longlisted applicants are referred to the Selection Panel, which will short-list applications based on the additional selection criteria defined above. Short-listing will include a decision about the appropriate amount of financial support and will partly be based on a business plan developed by the longlisted applicant and may include an in-person interview.³⁵
- (c) Short-listed applicants will be referred to PFIs that will evaluate the creditworthiness of short-listed applicants and decide whether microloans can be supplied. Loans will be approved solely for business purposes. Successful candidates will be referred to the relevant post-loan nonfinancial support services.

25. Information on selected candidates will be widely disclosed, and unsuccessful applicants will be provided with one-on-one feedback, including signposting to career counselling and employment services.

26. **Outreach.** Labor and social welfare offices will oversee outreach activities, collaborating where feasible with youth-serving organizations and high-performing alumni who can conduct awareness-raising and mobilization. Outreach efforts will ensure that vulnerable groups (notably social welfare recipients, poor people, youth, rural-to-urban migrants, women, and so on) are aware of the microenterprise program. Appropriate measures to assure access by the Kazakh-speaking minority will also be implemented.

27. **Nonfinancial support.** The subcomponent will finance a range of nonfinancial support services to be delivered on a flexible basis to meet beneficiary needs. For longlisted applicants with no or little prior business experience, pre-loan training will include a one-day classroom- and workshop-style orientation and ideation training. All longlisted applicants will also attend a one-day business mindset and attitudes training and a two-day business skills and planning training. Post-loan nonfinancial support services will span (a) business development training, (b) specialist training modules, (c) mentoring, (d) peer-to-peer

³⁴ This timing mirrors current government practice and provides opportunities to access the program either during the spring/summer uptake in economic activity or during the typical fall/winter decline.

³⁵ At this stage, applications will also be screened with regard to their compliance with appropriate environmental safeguards. Selection Panels may also be granted flexibility to prioritize sectors with growth potential and/or particular local relevance to local economic and social development.



and alumni networks, and (e) market linkages. Not all beneficiaries will be expected/able to access all forms of post-loan nonfinancial support. Training will be specifically tailored to maximize female participation, through convenient time and place of activities, a specialist module covering home-based business opportunities, and use of women role models.³⁶

28. **Financial support.** In Mongolia, access to finance is the biggest business environment obstacle for firms with fewer than 20 employees.³⁷ Financial support will be provided through arrangements similar to those of the microloans of the existing Entrepreneurship Development Program, that is, it will be provided through PFIs in the form of microloans.

29. PFIs will be selected at project outset by the MLSP under the provision of no-objection by the World Bank through open bidding among all eligible financial institutions. 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. 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 access for the most vulnerable, microloans will be supplemented by interest rate relief to the most vulnerable beneficiaries.³⁸

30. Eligibility of financial institutions will be subject to compliance with the Government of Mongolia regulations and World Bank policies. Eligible financial institutions will need to demonstrate (a) adequate profitability, capital, and portfolio quality; (b) acceptable levels of loan collections; (c) appropriate capacity; (d) capacity to mobilize domestic resources; (e) adequate managerial autonomy and commercially oriented governance; and (f) appropriate prudential policies, administrative structure, and business procedures. Mongolia's Employment Promotion Law stipulates that only banks can be providers of microloans through EPPs. Should legislative changes occur that allow the inclusion of nonbank financial institutions (NBFIs), savings and credit cooperatives (SCCs), or similar more traditional microfinance institutions, these can potentially be providers, subject to compliance with Government of Mongolia regulations and World Bank policies. PFIs will be required to maintain compliance with eligibility criteria

³⁶ The business training course will be mandatory; will span approximately 36 hours; and will cover core areas such as accounting, HR, marketing, and sales. Specialist training modules will span approximately 4 hours and cover areas such as product or service innovation and business diversification. Mentoring services will be phased in over the duration of the project delivered by the local business population (mentors will be volunteers and the project will finance the management of the program). With regard to peer-to-peer and alumni networks, off-line and/or online networking and experience sharing will involve beneficiaries past and present. Market linkages will consist of regular platforms and events for business sales to be organized by business incubators and support to helping micro-entrepreneurs operate within a large firm's supply or distribution chain. The specific actions to address gender gaps in Mongolia's labor market will draw on the specific constraints observed in the country and international best practice.

Buvinic, Maya, and Rebecca Furst-Nichols. 2013. "Promoting Women's Economic Empowerment - What Works?" World Bank working paper. World Bank, Washington, DC. Subject to agreement between the World Bank and the MLSP, some of the nonfinancial support might be gradually phased in over the first two years of project implementation.

³⁷ World Bank and IFC. 2013. "Mongolia Enterprise Survey."

³⁸ Interest rate relief will be administered by labor and social welfare offices and initially be available to 'citizens having difficulty finding employment' as defined in the Employment Promotion Law. Should legislative changes occur that allow the linkage of interest rate relief to other selection criteria (such as households' PMT scores), such criteria might be considered, subject to agreement between the MLSP and the World Bank.



throughout project implementation. They will be subject to semiannual monitoring reviews. Noncompliant PFIs will have their access to the loans suspended and ultimately terminated.

31. Detailed rights and obligations of PFIs will be stipulated in the EPF manual and the contracts between the MLSP and the institutions. In particular, PFIs will bear the full risk of the microloans to beneficiaries. PFIs will be required to process applications within a designated period, not to reduce the loan amounts set by the Selection Panels, to adhere to agreed-upon collateral requirements, and to recycle loans to project beneficiaries and within a designated period. The World Bank's Anti-Corruption Guidelines will be referenced in the EPF manual and all contracts between the MLSP and PFIs.

32. Labor and social welfare offices will have the responsibility for managing day-to-day partnerships with PFIs active in their local communities. The inclusion of representatives from participating financial providers on Selection Panels will facilitate expeditious processing of microloan applications. Beneficiaries will become clients of PFIs subject to their loan terms under the general product provisions stipulated by this project. Microloans will primarily be provided in a range of MNT 5 to 10 million (approximately US\$2,200 to US\$4,400 at current exchange rates). To ensure coverage of vulnerable populations with potentially higher credit risks, access to smaller loans (in a range of MNT 2 million to MNT 5 million) will be granted at the discretion of the Selection Panel based on a longlisted applicant's business experience and vulnerability. To ease graduation to fully market-based financial support, a single round of follow-up loans will be available up to a maximum of MNT 20 million based on strong repayment and business track records as well as the standard selection criteria. For beneficiaries, the loan repayment period will be 24 months, but with the first 6 months only interest and a 2-month grace period. For follow-up loans, the grace period and the interest rate may be different.³⁹

33. **M&E and learning.** Strong M&E arrangements will be critical to assessing achievement toward the PDO and to rigorous implementation of the flexible support approach. Institutional support will be provided for this purpose. Monitoring will include the monitoring of PFIs and of beneficiaries, including with respect to use of loans for intended business purpose. Rapid satisfaction surveys of beneficiaries will be conducted annually. An impact evaluation using an experimental or quasi-experimental methodology will be conducted on the impact of Subcomponent 2.2. Considering sample size and bias, the flexible program design potentially allows for evaluation of different treatment effects of varying combinations of services (see annex 5).

Subcomponent 2.3: Employment promotion piloting program (US\$0.80 million)

34. **Objectives.** Subcomponent 2.3 will support the implementation of a new employment promotion piloting program, building on existing semiformal schemes. The program will provide labor and social welfare offices the opportunity to develop proposals for EPPs that they deem adequate and appropriate for the local context. The employment promotion piloting program will be implemented in an exploratory way and at a relatively small scale. Its objectives will be to (a) support interventions appropriate for the local labor market context (to complement the MLSP's other EPPs, which are all implemented across

³⁹ Beneficiaries without adequate collateral may have access to the Credit Guarantee Fund of Mongolia (CGFM), subject to necessary legal provisions. Micro loan sizes have been defined based on feedback from local experts about the need and demand from target populations and insights into the cost of starting an informal business in Mongolia. The size of microloans and other financial support arrangements will be revisited periodically and if appropriate revised, in particular at midterm review.



Mongolia in a uniform fashion); (b) reach young people and the most vulnerable; (c) promote gender equality on the labor market; and (d) encourage learning and evidence-based decision making.

35. **Implementation.** Labor and social welfare offices will be encouraged to pilot new and innovative EPPs but will be restricted in the range of proposals that will be eligible for funding. In particular, proposals will only be permitted to encompass the financing of employment promotion services and measures as defined in the Employment Promotion Law of Mongolia (such as the provision of occupational and vocational orientation, counselling and information; job training; or support to herders, the self-employed, and so on). Civil works, capacity-building activities for the staff of local labor and social welfare offices, or other activities outside of employment promotion services and measures will not be financed.

36. Local labor and social welfare offices will be encouraged to extend existing nationwide EPPs to particularly vulnerable groups in a specific locality, that is, proposals can be focused on extending the outreach of the current programs. Proposals with support of the Local Employment Council will be prioritized as will be those with co-financing from local government or stakeholders.

37. **Screening and selection.** Screening and selection will take place on an annual basis. The GOLSWs will set up the Selection Panel that will have the responsibility for evaluating proposals. The panel will be composed of senior representatives from relevant departments of the MLSP or GOLSWs and will consult with relevant stakeholders (in particular, the tripartite National Employment Council to ensure involvement by private business and others). Information on selected proposals will be internally disclosed and all labor and social welfare offices that submitted proposals will receive concise feedback about the strengths and areas of improvement of their proposals. Proposals that are not selected can be resubmitted later.

38. The Selection Panel will evaluate proposals in accordance to predefined guidelines and selection criteria. Selection criteria will be applied through a points scoring system such that the proposals that meet the highest number of selection criteria will qualify first. They will include items such as (a) the likelihood of providing jobseekers and micro-entrepreneurs with improved access to labor market opportunities; (b) the alignment with MLSP priorities and program objectives, including the inclusion of specific actions to address gender gaps on Mongolia's labor market; (c) the technical soundness of the proposal and proposed implementation arrangements; (d) the buy-in and co-financing from local stakeholders; and (e) the proposal's innovativeness and potential for learning. A broad balance between the financing of interventions implemented in Ulaanbaatar and the major geographical regions of Mongolia will be desirable. More details on selection, screening, and monitoring responsibilities will be summarized in the EPF manual.

39. **Activities.** Proposals may request grants ranging from MNT 100 million to MNT 200 million (approximately US\$44,151 to US\$88,302 at current exchange rates) with an expected average grant amount of about MNT 150 million (somewhat less than 10 percent of EPP core expenditures for each labor and social welfare office over the last few years). Local labor and social welfare offices will be allowed to allocate up to 10 percent of the requested grant amount to internal administrative, monitoring, and training expenses. To support implementation of the employment promotion piloting program, consultant fees and per diems for training and capacity building for the GOLSWs and labor and social welfare office staff will be financed, as well as consultant fees for support to drafting of a selection procedure for grants. Subcomponent 2.3 will also emphasize monitoring and learning. This will, in



particular, include the preparation of an end-of-program note for each pilot that summarizes the project implementation experiences and lessons learned.

Component 3. Facilitating labor market monitoring and analysis and project management (US\$3.00 million)

Subcomponent 3.1: Labor market monitoring and analysis (US\$0.95 million)

40. **Objectives.** Subcomponent 3.1 will enhance the scope, quality, and availability of information obtainable by labor market actors, to allow them to make informed decisions. The provision of details on labor market trends will guide jobseekers and students seeking career advice in job-search and skills-preparation processes, direct policy makers in the evidence-based reform of policies and programs, and address job-search constraints related to incomplete information. The intended users of information include government ministries responsible for labor and education policies, public employment services, training institutions, schools, career advisors and job counselors, and students making career choices.⁴⁰

41. The scope, quality, and availability of labor market information will be improved in three ways:

- First, through regular monitoring of labor market developments by means of a quarterly Labor Market Monitoring Bulletin.
- Second, through policy-relevant labor analysis in the form of a Skills Demand Study with a focus on occupational demand and an additional labor-related analytical study on a topic to be selected by the Government (under no-objection by the World Bank).
- Third, through a rigorous impact evaluation of the support for micro-entrepreneurs provided as part of Subcomponent 2.2. In all three cases, the production of relevant and accessible products and their dissemination will be emphasized.

42. **Labor Market Monitoring Bulletin.** The bulletin will provide main stakeholders with current information of labor market developments to inform policy. It will present main labor market trends and patterns both for Mongolia as a whole, by gender and in spatially disaggregated form, and will highlight their policy relevance and implications. It will synthesize labor market information coming from different sources. Activities to be supported by the project include international and local consultancies to (a) develop a template for the bulletin; (b) assist the MLSP in producing the first issues of the bulletin; and (c) develop and implement an effective dissemination strategy (such as press releases, media briefs, websites, leaflets).⁴¹

⁴⁰ The Ministry of Education, Culture, Science, and Sports was consulted and expressed keen interest in activities supported by the subcomponent.

⁴¹ It is envisaged that the bulletin will consist of (a) a short nontechnical overview of key labor market developments aimed at top-level policy makers and (b) a technical section providing detailed information and analysis targeted at specialists. It is expected to be produced on a quarterly basis. This frequency will be reviewed and, if appropriate, adjusted during the midterm review. The project will support the first 2 releases with an international consultancy and the first 10 releases with a local consultancy.



43. **Skills Demand Study.** The purpose of the Skills Demand Study will be to provide labor market actors with information on the demand for occupations and skills to better match labor supply with demand. The study will look into the trends in demand for specific skills by occupation; identify skills that are in short supply; and also identify gaps in cognitive, socio-behavioral, and technical skills among the Mongolian workforce. The study will use already available data coming from the GOLSWs administrative records and from the LFS to identify recent trends in employment and wages by occupation. The study will also use the data coming from the existing Barometer Survey to determine short-term occupational demand. To identify skill shortages, it is envisaged to develop and attach a special Skills Module to the Barometer Survey.

44. Activities financed under the project will include international and local consultancies to assist the Government in activities such as (a) assessing the quality of existing data on occupational demand, (b) designing a new Skills Module to be attached to the Barometer Survey, (c) conceptualizing the study, (d) analyzing data, (e) producing outputs tailored to the needs of different users, and (f) designing an effective dissemination strategy. The project will support training in methods and techniques used to analyze survey data and in the methodology of labor market research to develop local capacity to carry out high-quality policy-relevant labor market analysis in the future. It will also support dissemination activities.⁴²

45. **Labor market study on priority topics.** The objective of the study will be to enhance the understanding of a priority labor market issue, largely based on key policy questions and existing data. The examples of topics that could be analyzed include, but are not limited to, (a) the profile of unemployment and barriers to employment, (b) returns to education and skills, (c) informal employment, and (d) employment of women and vulnerable groups. The target audience will be primarily government ministries and agencies but, depending on the study, can include other stakeholders. Activities that will potentially be supported by the project include (a) conceptualization of the study; (b) limited-scale additional data collection (for example, focus group discussions); (c) data analysis and production of outputs; (d) development of a dissemination strategy; and (v) dissemination.

46. **Impact Evaluation.** Subcomponent 3.1 will also facilitate a rigorous impact evaluation of the support for micro-entrepreneurs provided as part of Subcomponent 2.2. This impact evaluation will foster evidence-based policy making and the efficient allocation of scarce resources (see annex 5).

Subcomponent 3.2: Project management and monitoring (US\$2.05 million)

47. Subcomponent 3.2 will provide day-to-day implementation and operational support to the MLSP and the PIU to efficiently implement the project. This will include the support of monitoring activities such as technical audits, beneficiary surveys, and related data collection efforts and financing of the PIU's coordination and management activities. The following activities will be supported under this subcomponent:

- (a) **Guidelines and manuals for project implementation.** The project will support the development of an Operations Manual by project effectiveness and updates to the manual from time to time by the MLSP with the prior written agreement of the World Bank.

⁴² The Skills Demand Study is expected to be carried out periodically. The project will directly support the first release.



- (b) **Monitoring activities.** The project will support monitoring activities such as technical audits, beneficiary surveys, and related data collection efforts. This will include regular tracer studies of beneficiaries and the implementation of regular satisfaction surveys of beneficiaries.
- (c) **Operational support.** The project will finance day-to-day operational costs of the PIU's coordination and management activities.



ANNEX 2: IMPLEMENTATION ARRANGEMENTS

Project Institutional and Implementation Arrangements

1. The MLSP will be the sole implementing agency, together with the offices that report to it. These are labor social and welfare offices in *aimag* centers and districts of Ulaanbaatar and the capital city labor department in Ulaanbaatar (which provide public employment services) and two centralized offices, the GOLSWs and the LSPRI responsible for M&E and labor market information and analysis, respectively. A PSC headed by the State Secretary, MLSP, will be established at the MLSP for project oversight and a PIU, led by a Project Coordinator, will also be set up within the MLSP.

2. The MLSP, through the PIU, will be responsible for overall coordination, results monitoring, and communicating with the World Bank on all fiduciary aspects. The GOLSWs will be involved in the implementation of all components and in particular, Subcomponent 2.3. Local labor and social welfare offices will be responsible for implementing Component 1 and Subcomponents 2.1, 2.2, and 2.3 on the ground. The LSPRI will begin to play the function of a Labor Market Observatory and will be responsible for managing activities under Component 3.1 and delivering the outputs.⁴³ Certain services will be contracted to various vendors, including training providers for the employment training of Subcomponent 2.1 and PFIs for the administration of microloans of Subcomponent 2.2.

3. 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 MLSP departments. 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, labor unions or the ministry responsible for education) to receive their perspectives on the matters discussed.

4. The PIU will report to the Head of the PSC. The PIU staff will be hired by the MLSP under TORs satisfactory to the World Bank. It will include a Project Coordinator, an FM specialist, a procurement specialist, an M&E specialist and other staff, including program officers responsible for the different components. Responsibilities of the PIU will include, but not be limited to,

- (a) Overall management and implementation support of project activities;
- (b) Coordination with the World Bank, MLSP management and concerned departments and

⁴³ To perform its management function effectively, the LSPRI needs to have adequate resources (human and financial) throughout the project cycle and in the future, to ensure the sustainability of the analytical capacity built under the project. It also needs to have effective access to labor market data coming from different sources (for example, data on employment and wages by occupation collected by the GOLSWs).



offices, and 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, the DAs, and disbursements;
- (i) Reporting responsibilities, including the preparation of FMRs, PRs, PMRs, and Annual Reports;
- (j) Organization of implementation support missions, a midterm review, and a final review.

5. An Operations Manual will be developed by project effectiveness, and it will be updated from time to time by the MLSP with the prior written agreement of the World Bank. It will be used by the PIU to meet its responsibilities. The content will include, but not be limited to, a description of the PIU's responsibilities, operational system, and procedures (including the PIU's organizational structure, office operations and procedures, finance and accounting procedures and procurement procedures). The manual will contain a section on project FM, including the project Chart of Accounts, manual accounting ledgers, and other project FM arrangements, and also a section with the rules and regulations of the Government's EPF as they pertain to the project. An EPF manual will also be developed and provide details on implementation aspects and project components implemented through the EPF. No withdrawal shall be made under Category 2 expenditure until the EPF manual acceptable to the World Bank has been adopted.

6. The vast majority of the project activities under Component 2 will be implemented as part of the Government's existing EPF activities. The EPF has been established and is regulated under Mongolia's Employment Promotion Law and is essentially a budgetary line item. Its purpose is to finance the activities of the EPPs, such as vocational training, small business support, microloans, labor intermediation, and so on. Funds are allocated to the EPF on an annual basis through approval by the Parliament as well as the Minister of Labor and Social Protection under consideration of the view of the tripartite National Labor Council. The budget for the EPF is reflected in the state budget. In principle, the Employment Promotion Law mentions various funding sources, including allocation from the state or local budget and loans, credits and grants from foreign countries, and international organizations. In practice, current funding for the EPF mostly comes from employers that hire foreign citizens on a contractual basis.

7. Components 1 and 3 as well as capacity-building, research, and monitoring-related activities to support implementation of the EPF under Component 2 will be managed by the PIU.



Financial Management

Introduction/Summary

8. The World Bank's FM team conducted an assessment of the adequacy of the project FM arrangements for the proposed Employment Support Project. The assessment, based on guidelines issued by the Financial Management Sector Board on March 1, 2010, concluded that the project will meet the World Bank's FM requirements, as stipulated in BP/OP 10.00. In the FM team's opinion, the project will have FM arrangements acceptable to the World Bank and, as part of the overall arrangements that the borrower will put in place for implementing the operation, provide reasonable assurance that the proceeds of the IDA credit will be used for the purposes for which the credit is provided.

9. The FM capacity assessment identified the following principal risks associated with the proposed implementation arrangements for the project: (a) lack of knowledge and experience in managing World Bank-financed projects by the MLSP as the implementing agency and (b) potential issues with coordinating and harmonizing the project's FM arrangements with those of the state budget EPF through which a substantial portion of the project activities will be managed. The MLSP has no prior experience managing World Bank-financed projects. While the MLSP has been implementing Component B (Supporting Government Efforts to Better Protect the Poor) and Component F (Initiating and Supporting the Pensions' Reform Agenda and Developing Policy Options) of the ongoing World Bank-financed Mongolia Multi-Sectoral Technical Assistance Project (P119825), a Project Coordination Unit at the Ministry of Finance (MOF) has managed the project FM.

10. To address the MLSP's lack of knowledge and experience with regard to FM in World Bank-financed projects, as part of setting up the PIU, a qualified FM staff member is expected to be appointed early enough to be trained in the World Bank's FM and disbursement policies and practices. This Finance Officer will participate in preparation of the FM section of the Operations Manual, which will contain detailed project FM arrangements, including the project Chart of Accounts, manual accounting ledgers, and other relevant details. The project Operations Manual is to be completed by project effectiveness. In addition, the project will develop an EPF manual, before disbursement from Category 2, which will contain revised and improved rules and regulations concerning the Government's EPF.

11. FM risk is the risk that World Bank loan proceeds will not be used for the purposes intended and is a combination of country, sector, and project-specific risk factors. Overall, the residual FM risk after mitigating measures for the project is assessed as Substantial.

Weaknesses and Action Plan

12. The plan of actions summarized in Table 2 has been identified to address the FM weaknesses:

Table 2. FM weaknesses and Action Plan

Significant weaknesses	Actions	Responsible Person	Completion Date
A PIU is not yet in place	A PIU should be established with a qualified financial	MLSP	Prior to



and no FM staff has been appointed.	staff member who would assist putting in place the project FM arrangements discussed in this document. The World Bank will help train this financial staff member in the relevant World Bank procedures and practices.		project effectiveness
Project FM-related procedures and practices are not yet defined or ready for project implementation	<p>The operations manual should be prepared with a section on project FM procedures including, but not limited to, the following:</p> <ul style="list-style-type: none"> (a) Chart of accounts including account descriptions (b) Design of manual accounting registers for recording project transactions during the initial months of project implementation (the manual registers shall then be replaced by a suitable computerized accounting system within 3 months of effectiveness) (c) Formats of the project Interim Financial Reports (IFRs) as agreed by the World Bank (d) Other project FM arrangements <p>In addition, the project will develop an EPF-specific manual, which will include rules and regulations of the Government's EPF through which a substantial portion of the project funds will be managed. Any required improvements to the existing EPF rules and regulations will be agreed by the MLSP and reflected in this EPF Manual.</p>	MLSP/PIU	<p>Prior to project effectiveness</p> <p>Prior to disbursement from Category 2</p>

Disbursements and Funds Flow Arrangements

13. Four disbursement methods i.e. advance, reimbursement, direct payment, and special commitment will be available for the project. The primary methods of World Bank disbursement to the project will be advance and direct payment. The PIU will also be directly responsible for preparing withdrawal applications (WAs) for all project funds including those to be managed through the EPF. The WA to be submitted to the World Bank will be signed off by the authorized representatives from MOF (first signatory) and the MLSP/PIU (second signatory). Supporting documents for the World Bank disbursements will be WAs, summary sheets, statements of expenditures and/or records like contracts, invoices and activity-based financial reports of the EPF. Detailed requirements will be laid out in the project Disbursement Letter (DL) to be issued by the World Bank.

14. The project funds disbursed through the above-mentioned methods will be spent for eligible expenditures that support implementation of the following three components:

- (a) Component 1 – Supporting client-centric public employment services (US\$4.75 million)
- (b) Component 2 – Strengthening select active labor market programs (US\$17.25 million)



- (c) Component 3 – Facilitating labor market monitoring and analysis and project management (US\$3.00 million)

15. The vast majority of the project activities under Component 2 will be implemented as part of the Government's existing EPF activities and essentially using country systems. Component 1 and 3, as well as capacity building, research and monitoring-related activities to support implementation of the EPF under Component 2, will be managed by the PIU and follow typical FM arrangements of standard Investment Project Financing operations.

16. Table 3 summarizes categories of expenditures eligible for financing under the project:

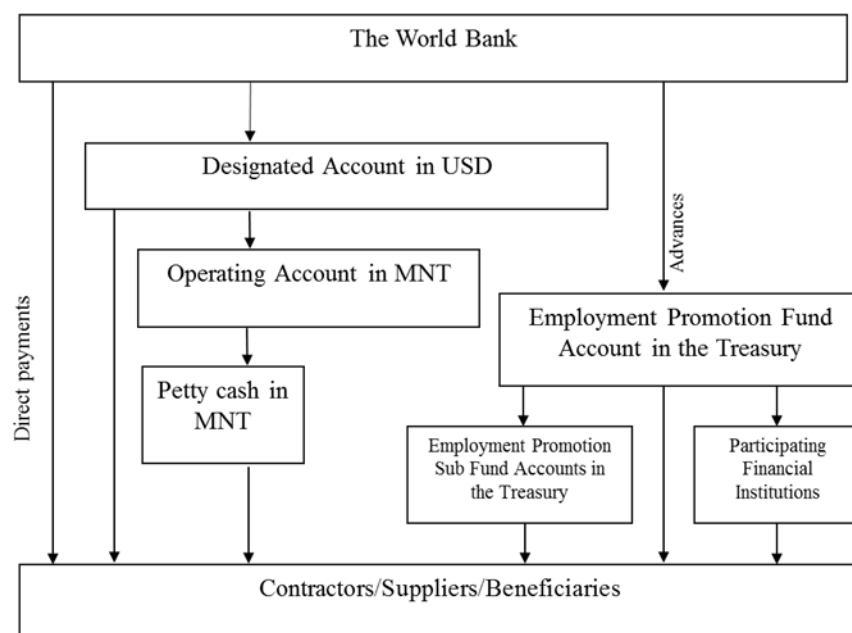
Table 3: Expenditure Categories

Category	Amount of IDA Credit Allocated (SDR)	Percentage of Expenditures to be financed by the World Bank (inclusive of Taxes)
(1) Goods, civil works, non-consultants' services, consultants' services, training and workshops, and operating cost [non-EPF]	6,570,000	100%
(2) Non-consultants' services, consultants' services, training and workshops, micro-loans and small grant to implement employment program pilots [EPF]	11,830,000	100%
Total Amount	18,400,000	

17. In terms of funds flow, the credit proceeds will flow from the World Bank either to a project Designated Account (for Category 1 expenditures) or to the EPF account in the Treasury through the state budget foreign currency account at the Bank of Mongolia (for Category 2 expenditures) and will be disbursed against eligible project expenditures upon appropriate approvals from authorized representatives from MOF, MLSP and the PIU as applicable. Figure 2 depicts the project's general flow of funds.



Figure 2 – Funds Flow



18. As shown in figure 2, a segregated DA in U.S. dollars will be opened for the project at a commercial bank, on terms and conditions satisfactory to the World Bank, including appropriate protection against setoff, seizure, and attachments. Signatories on the DA will be authorized representatives of MOF (first signatory) and of the MLSP or PIU (second signatory). The ceiling of the DA will be discussed and agreed between the World Bank and the recipient and will be specified in the DL to be issued by the World Bank. Projects financed by the World Bank may potentially be transferred into the Government's Treasury Single Account system at some future date. If or when such an arrangement is confirmed, the DA arrangements described in the DL will be revised accordingly.

19. Further advances will be made from the DA to an Operating Account (OA) in Mongolian tugrik, which will be opened and maintained by the PIU at the same commercial bank where the DA is located. Payments from the OA will be approved by authorized representatives from the MLSP (first signatory) and the PIU (second signatory). The OA will be used to pay for small expenditures relating to the PIU's incremental operating costs only. These small expenditures will include, among others, utilities, communications, vehicle operating costs and repairs, PIU contracted staff's salaries, and local training costs. The ceiling of the OA will also be reflected in the DL. The PIU can also draw from the OA petty cash up to the ceiling to be approved under the project's internal control procedures.

20. The PIU will be responsible for conducting regular reconciliations of the DA, OA, and petty cash balances. Specific account management and payment approval policies will be documented in the FM section of the Operations Manual.



21. Documents supporting project expenditures shall be made available for review by the World Bank's supervision missions, external auditors, public internal auditors, 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 World Bank may take necessary actions in line with related policies.

Specific Arrangements for EPF Activities under the Project

22. The majority of the project activities under Component 2 will be implemented as part of the Government's own EPF activities. 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, vocational training, small business support, microloans, job intermediaries, and so on.

23. 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.

24. The EPF annual budget is reflected in the state budget of the Minister of Labor and Social Protection's portfolio and the detailed EPF budget with the specific programs and activities is approved annually by the National Employment Council. 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 Mongolian National Audit Office (MNAO) audits the EPF annually and issued a clean opinion (unqualified) on the fiscal year 2015 EPF financial statements.

25. 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 and will be comingled with the state budget funds. The project funds flowing through the EPF will not be tracked separately from those of the state budget. The Government's EPF regulations, with improvements and additions as needed, will be followed for implementing the project activities under the EPF. The project will provide technical assistance to review the existing EPF regulations and to revise them as necessary. These detailed regulations will be followed for the entire EPF operations and will be documented in the EPF manual to be developed and adopted under the project before disbursement from Category 2.

26. The project activities 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 activities in the EPF's annual budget that support the PDO and planned project scope. The annual project contribution to the EPF, based on the budgetary and planning documents, will be advanced to the EPF from the World Bank. Table 4 reflects the proposed arrangements for advancing project funds to the EPF and recognizing eligible expenditures against the advances:



Table 4. Arrangements for Project Activities to be Implemented through the EPF

Project Activities to be Implemented through the EPF	Arrangements for Providing Annual Advance Contributions to the EPF from the World Bank	Arrangements for Recognizing Eligible Expenditures
Microloans (US\$6.44 million)*	Multiple-year contracts will be established with PFIs. The World Bank contribution for microloans will be provided to the EPF in a total of 4 tranches within the first 2 years of the project implementation. The Government will provide parallel financing of US\$4 million for microloans. The MLSP will be responsible for the Government parallel financing being budgeted appropriately to ensure timely availability of the state budget funds for the microloans. In order to track the project financing for micro loans separately from that from the government parallel financing, it may be ideal to finance specific contracts with PFIs with the project funds.	At the end of each year, the MLSP will provide the World Bank with a report from the PFIs showing microloans issued under the project and the World Bank will recognize actual microloans made to beneficiaries from the PFIs as eligible expenditures. Given the possibility of the project funds to revolve at the PFIs, the World Bank will recognize the actual microloans made by the PFIs during the project life up to the total available project funds for the activity for example, US\$6.44 million (and possibly US\$6.86 million, including contingencies). It would be essential for the PIU and MLSP to ensure that the project funds planned and spent to micro-loans do not exceed the above allocation given the project funds for micro-loans and other project activities to be managed through the EPF will comeingle. Detailed arrangements for such controls should be included in the EPF manual.
All other project activities through the EPF, for example, various training, mentoring, and peer-to-peer learning activities, allowances, and grants to welfare and welfare offices (US\$9.63 million)	Each year, based on the project and EPF budgets for the year, the World Bank will provide an annual advance contribution to the EPF for financing agreed-upon activities.	At the end of each year, the MLSP will provide the World Bank with an EPF budget execution report by project activities, for example, training and grants, and the actual expenditures spent for the agreed-upon activities will be recognized as eligible expenditures based on the budget execution report.**

Note: * Annex 6 provides more information on detailed arrangements for the micro-loans.

**At the time of this assessment, the assumption is that all the EPF activities, other than the microloans, financed by the project funds will not have state budget co-financing. If there is a change in this arrangement during the course of project implementation allowing state budget co-financing for project activities through the EPF, eligible expenditures under the World Bank and the state budget financing sources will be recognized proportionally with the approved budgets for the two sources.

27. Budgeting. As the project funds to be managed within the EPF will be budgeted as part of Government's normal budgeting processes, the MLSP and the World Bank will agree on the annual total project advance to the EPF by June each year and have this total reflected in the state budget. Then, later in the year, a detailed EPF budget by activities will be approved by the National Employment Council.



28. **Disbursement from the World Bank.** Based on the details of the EPF activities to be financed from the project the World Bank will provide its semi-annual/annual advances to the EPF (semi-annual for the first 2 years of the project life given the 2 transfers a year for the micro-loans and then annual thereafter). The World Bank will provide approval to the semi-annual/annual advances from the World Bank based on the detailed annual budget for the coming period (half a year or a year) as well as the budget execution report, as described in the table 4, for the previous period (not applicable for the first year of project implementation.) Any undocumented balance at the end of the year will be deducted from the following year's 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. For small grants to be provided from the EPF under the project, the labor and welfare offices will account for the specific expenditures in their own accounting records.

Budgeting

31. The PIU will prepare an annual budget/disbursement plan with a timetable by each quarter. The annual budget/disbursement plan will be discussed and approved by the PSC and the World Bank and will be reflected in the appropriate parts of the state budget, for example, the EPF budget as discussed in the previous section.

32. The PIU will conduct regular planned versus actual variance analyses on the IFRs during the entire project implementation and explain any significant differences to aid management in taking the necessary corrective actions.

Accounting and Financial Reporting

33. Project accounting will follow the Government's accounting framework, which is based on the International Public Sector Accounting Standards, which was adopted by Mongolia in 2003 though implementation is incomplete.

34. For the project, in its initial few months of implementation until setting up a computerized accounting system, the PIU will maintain manual accounting records and produce financial reports using MS Excel given the expected low level of disbursement during this period. After this initial period of no longer than three months, the project accounting and reporting should be done in a commercially available computerized accounting software package. Before the purchase and implementation of the accounting software, the project can consult with the World Bank's FM team as needed. The FM team will plan a supervision mission shortly after the system is set up to ensure its readiness to be used for the project.

35. For Category 2 expenditures, the PIU will make an annual adjusting journal entry to record the project's EPF expenditures in the project accounting system based on the annual EPF financial report by the project/program and activities. Individual expenditures under the EPF shall not be recorded in the project accounting system.



36. The project's financial statements will include the following:

- (a) Statement of Cash Receipts and Payments by the Expenditure Categories
- (b) Statement of Sources and Uses of Funds by Project Components
- (c) Statement of Implementation of Credit Proceeds
- (d) Statement of Designated Account for the Credit
- (e) Notes to the financial statements

37. The PIU will prepare IFRs inclusive of the above reports on a quarterly basis directly from the accounting software and submit them to the World Bank for review within 45 days after the end of each calendar quarter. In addition to these financial reports to be presented in U. S. dollars and submitted to the World Bank for review, the project will also prepare project financial statements presented in Mongolian Tugrik in the standard format of government reporting to be consolidated into the MLSP's consolidated financial statements.

38. The World Bank task team will monitor the project's accounting and financial reporting processes during the entire project implementation to ensure complete and accurate financial information is available to the relevant project stakeholders in a timely manner.

Internal Control

39. To facilitate adequate internal control practices, an FM section under the Operations Manual as well as an EPF manual will be prepared that lay out procedures related to proper authorization for payment requests, segregation of duties, and other internal control procedures and practices relating to FM of the project as well as the detailed rules and regulations on the required EPF arrangements and processes. The relevant procedures identified in the Operations Manual and the EPF manual will be closely followed by all parties involved in the project implementation. In addition, regular oversight by the PSC, periodic supervision missions by the World Bank's task team, annual financial audits by independent external auditors, and reports of public internal auditors will serve as mechanisms for ensuring that the project FM systems function effectively.

Audit Arrangements

40. The World Bank requires the project financial statements to be audited in accordance with auditing standards acceptable to the World Bank. Accordingly, similar to other World Bank-financed projects in Mongolia, the MNAO will appoint an independent external auditor acceptable to the World Bank to conduct an annual audit of the project accounts in accordance with International Standards on Auditing and under TOR satisfactory to the World Bank. The annual project audits will be financed from the credit proceeds.

41. The auditors will (a) express an opinion on the project financial statements; (b) determine whether the DA has (i) been correctly accounted for and (ii) been used in accordance with the Legal Agreement, and (c) determine adequacy of the supporting documents and controls surrounding the use



of statements of expenditure/summary sheets as the basis for disbursement. The auditors will also furnish a separate Management Letter, which will (a) identify significant weaknesses in accounting and internal control as well as asset management, (b) report on the degree of compliance with financial covenants of the Financing Agreement, and (c) communicate matters that have come to the attention of the auditors which might have a significant impact on the implementation of the project.

42. The MLSP will submit the annual audit report on the project financial statements to the Association within six months after the end of the reporting period (June 30 of each calendar year). By this date, the MLSP will also submit to the World Bank, the annual EPF audit report and Management Letter. This requirement will be stipulated in the Financing Agreement.

Supervision Plan

43. The FM supervision plan for this project will be based on its FM risk rating, which will be evaluated on a regular basis by the World Bank's FM team in line with the Financial Management Sector Board's FM Manual and in consultation with the task team leader. During the project preparation and early implementation, the FM team supervision will focus on the following areas:

- (a) Appointment of the project financial staff
- (b) Appropriateness of the FM and EPF-related procedures and policies identified in the operations and the EPF manual
- (c) The project's adherence to the agreed-upon operations and the EPF manual
- (d) Timeliness and accuracy of the manual accounting and financial reporting of the project
- (e) Implementation of the accounting software

Procurement

44. The project is not expected to be procurement intensive as a major part of the project resources (around 70 percent) is allocated for vocational training and allowances for trainees or microloans to self-employed micro-entrepreneurs. Procurement activities that will be carried out for the remaining portion of the loan will comprise contracts for works, goods, and consulting services of very small amount and not complex. In view of the project specifics and the positive evaluation of the MLSP's procurement performance by the MOF, the procurement risk for this project is assessed as Moderate.

45. The key risks for the project are

- (a) Inadequate planning and scheduling to ensure that the project activities commence and are completed as planned;
- (b) Inadequate procurement oversight mechanism; and
- (c) Possible elite capture and political interference in procurement and/or preference for specific service providers/suppliers/consultants.



46. To mitigate the risks, the following actions were discussed and agreed with the MLSP:
- (a) A qualified Procurement Officer for the PIU will be hired by the MLSP before the project becomes effective.
 - (b) 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.
 - (c) A procurement training program (internal/external) for the MLSP that is both relevant and practical will be implemented over the life of the project.
 - (d) Technical staff and users will be involved in preparation of specifications and TORs.
 - (e) It is to be ensured that procurement planning will be realistic and that all parties concerned keep to the agreed schedule.
 - (f) Just-in-time advice and implementation support will be provided by the MLSP to the relevant beneficiaries.

47. **Applicable guidelines.** Procurement for the proposed project will be carried out in accordance with the World Bank's 'Guidelines: Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers', dated January 2011 and revised July 2014; 'Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers', dated January 2011 and revised July 2014; and the provisions stipulated in the Legal Agreements.

Procurement Arrangements

48. **Works and supply and installation.** Within this project, very small value works contracts will be performed for physical upgrades of labor and social welfare offices. Sample bidding documents acceptable and agreed with the World Bank shall be used for National Competitive Bidding (NCB).

49. **Goods and non-consulting services procurement.** Goods procured under this project will include office furniture and equipment for labor and social welfare and private employment offices, ICT equipment, printing of promotional materials, and so on. Sample bidding documents agreed with the World Bank shall be used for all NCBs.

50. **Selection of consultants.** The project will finance various consulting services assignments to be contracted by the MLSP for the review of performance monitoring and job-matching functions; curriculum development and capacity building for training providers; impact evaluation of micro-entrepreneurship support; developing cell phone text messaging software, capacity building, and specialized technical services; and so on. The World Bank's Standard Request for Proposals shall be used for consulting services contracts with firms for the cost estimate of above US\$300,000.00.

51. **Training and workshops.** The MLSP shall prepare training plans as part of 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.

52. **Procurement Manual.** The procurement/consultants selection procedures to be described in the Procurement Manual include NCB, shopping, Direct Contracting, Quality- and Cost-Based Selection (QCBS), Selection based on the Consultants' Qualifications (CQS), Selection under a Fixed Budget, and Single-Source Selection (SSS). The Procurement Manual will also describe 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 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, 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.

53. **Procurement Plan.** The MLSP has prepared a preliminary Procurement Plan for contracts to be procured by the MLSP during the first 18 months of project implementation, dated February 19, 2017. 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.

54. **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 prior-review thresholds in Table 5 are indicative.

Table 5: Procurement Thresholds

	Prior Review Thresholds (US\$, millions)	Procurement/Selection Method Thresholds (US\$, millions)						
		ICB	NCB	Shopping	QCBS	QBS	CQS	SSS
Goods	First 2 NCB goods contracts irrespective of value and all contracts ≥ 0.5	≥ 1	< 1	< 0.1				
Works	First 2 NCB works contracts irrespective of value and all contracts ≥ 0.5	≥ 5	< 5	< 0.2				
Consulting Services	First contract for each selection method and all				--	--	< 0.3	--



	contracts ≥ 0.2 provided by firm; ≥ 0.02 for SSS (firms); individual consultants only in exceptional cases							
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Notes: (a) “--” refers to No Threshold. (b) All Direct Contracting will be subject to prior review. (c) ICB = International Competitive Bidding. (d) QBS = Quality-Based Selection.

55. **Frequency of procurement supervision.** Procurement supervision by the World Bank will be carried out once 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.

56. Procurement would be carried out in accordance with the World Bank’s “Guidelines: Procurement of Goods, Works and Non-Consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers, published by the World Bank in January 2011 and revised in July 2014; and “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 and revised July 2014.

57. “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 2006 and revised Jan 2011, shall apply to the project

Safeguards

58. The policy OP 4.01 (Environmental Assessment) is considered triggered and the project is categorized as B.

59. Under Component 1, the project will finance physical upgrades of existing labor and social and welfare offices (up to 31). Physical upgrades will include small-scale interior remodeling. Potential environmental impacts during short remodeling periods include noise, dust, and solid waste generation that are sometimes associated with minor civil work activities. These impacts are expected to be small and localized and can be mitigated by incorporating good civil work practices. If existing labor 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.

60. Under Component 2, the project will provide financial support (mainly in the form of microloans but also of interest rate relief) and a range of nonfinancial services to micro-entrepreneurs. Beneficiaries will be concentrated mainly in the commerce, service, and small-scale manufacturing sectors, such as tailoring, carpentry, shoemaking, vehicle repair/maintenance, Internet cafés/IT services, hair salons, food, and produce vendors. The project is not expected to finance microenterprises that pose substantial environmental risks. No significant, irreversible, or major environmental impacts are anticipated. The project will not have direct investments to construct, expand, or modernize the premises of existing or new microenterprises. Microloans will be approved solely for business purposes, typically funding the purchase or repair of equipment, the purchase of materials, investing in quantity or quality of



employment, or entering new markets. Depending on the exact sector, some microenterprises in the commerce, service, and small-scale manufacturing sectors may produce noise, congestion, and litter. In areas where there is poor waste management infrastructure, refuse, and litter from small businesses can be an environmental concern. Some urban businesses may encroach on and convert urban greenspaces (for example, parks) and bodies of water for their own use. Safeguarding the well-being of workers and family members might also be a concern. The potential environmental impacts by microenterprises are seen to be site-specific and readily managed with good practices during the implementation of the project.

61. The borrower has developed an ESMF. For Component 1, the ESMF provides Environmental Code of Practices for small-scale interior remodeling of existing labor and social and welfare offices, including asbestos management, in case, existing buildings to be remodeled under the project have asbestos materials. For this, the ESMF refers to the World Bank Group's Good Practice Note on Asbestos: Occupational and Community Health Issues, dated May 2009.

62. For Component 2, the ESMF includes procedures for the MLSP and its labor and social and welfare offices to screen microbusinesses' environmental impacts, to eliminate applications that are ineligible, and to require mitigation measures when appropriate. The ESMF provides general EHS principles for microenterprises and sector-specific EHS guidelines for common types of microbusinesses identified during project preparation. Additional sector-specific EHS guidelines for microbusinesses identified during project implementation will be added to the ESMF as needed. The World Bank Group's General EHS Guidelines and Industry-Specific EHS Guidelines have been referred to when preparing the general/sector-specific EHS guidelines for microbusinesses.

63. The MLSP will be responsible for the implementation of the project, including overall coordination, results monitoring, and communicating with the World Bank on all fiduciary and safeguard aspects. It will be supported by the PIU, which will carry out the day-to-day implementation of the project. The PIU staff should be appropriately trained to effectively supervise the implementation of the ESMF, including through a selective monitoring of the screening and selection of microenterprises by labor and social welfare offices, if appropriate, with support from the GOLSWs.

64. In addition to the ESMF, the project will also include the following technical assistance and capacity-building activities with project budget allocated where appropriate, to ensure that environmental and social safeguards are implemented. These activities will be implemented or supervised by the PIU:

- (a) Conduct public awareness activities or trainings to help beneficiaries of micro-entrepreneurship support improve EHS performance.
- (b) Support, train, and mentor staff of labor and social welfare offices on environmental safeguards to be able to manage the beneficiary screening and monitoring efficiently and effectively.
- (c) In cooperation with the Department of Occupational Safety and Health under the MLSP, develop sector-specific guidelines for sectors that are common among microenterprises and pose moderate environmental risks, as needed.



- (d) Maintain contact and communication with appropriate officials from the competent EHS authorities in the cities and regions of project implementation.

65. Key stakeholders with regard to safeguard policies are the MLSP, microenterprises, and residents who might be affected by the microenterprises' activities. Consultations with relevant stakeholders took place in the Ulaanbaatar district of Nalaikh and Tuv *aimag* on November 17, 2016. The final ESMF was locally disclosed on December 1, 2016, on the website <http://www.khun.gov.mn/>. On the same day, the ESMF was disclosed on the Bank's external website.

M&E

66. Overall responsibility for project M&E and reporting will rest with the PIU. PRs showing progress toward achieving the project's development objectives 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.

Role of Partners

67. No financing of other international financial institutions or bilateral donors is envisaged. The World Bank has consulted with relevant development partners (including the ADB, 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 Government of Mongolia'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.



ANNEX 3: IMPLEMENTATION SUPPORT PLAN

COUNTRY : Mongolia Mongolia Employment Support Project

Strategy and Approach for Implementation Support

1. 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 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.

Implementation Support Plan and Resource Requirements

2. 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 two years of implementation. During both project preparation and the first two years 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.

3. Detailed inputs from the World Bank team are outlined below:



- (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 will be carried out quarterly, 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 2.2.
- (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 described in annex 5. 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) **Safeguards.** Inputs from environmental and social safeguards specialists will be sought as needed.

4. 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 6 and 7.

Table 6. Implementation Support Plan

Time	Focus	Skills Needed	Resource Estimate (Staff Weeks Per Year)
First 24 months	Implementation support coordination and client relationship management	Task team leader	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 safeguards	Environmental safeguards specialist	2



Time	Focus	Skills Needed	Resource Estimate (Staff Weeks Per Year)
25 to 48 months	Implementation support coordination and client relationship management	Task team leader	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 safeguards	Environmental safeguards specialist	2

Table 7. Skills Mix Required

Skills Needed	Number of Staff Weeks Per Year	Number of Trips Per Year	Comments
Task team leader	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
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 safeguards specialist	2	Up to 1	Based in Washington, DC or Ulaanbaatar



ANNEX 4: ECONOMIC ANALYSIS

Analysis of Anticipated Costs and Benefits

Overview

1. The anticipated positive impact from the project will come from addressing labor market constraints in a concerted way, including through client-centric public employment services, strengthened active labor market programs, and improved labor market monitoring and analysis. While the anticipated costs and benefits of some interventions such as employment training are relatively easily quantifiable, for others such as labor market information and analysis this can prove much more challenging. The economic analysis will use evidence from the literature and data from Mongolia to quantify the costs and expected benefits of intervention whenever feasible, supplemented by a qualitative approach where needed.

2. In cases where a quantification of anticipated costs and benefits is feasible, the analysis follows two 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 RR and the project payback period. For Component 2, which benefits a set number of beneficiaries, the analysis is done 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 both approaches, IRRs are computed for 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.

3. Quantifiable earnings effects of the more costly project components are positive and robust to a range of assumptions. The results for Component 1 indicate that the costs of the client-centric public employment services will be recouped through the increased earnings of beneficiaries within 6 to 12 years, yielding an IRR of 6 percent to 12 percent. For Subcomponent 2.1 (integrated employment training program), the IRR is estimated at between 14 percent and 28 percent, which results in a payback period of three to five years. For the micro-entrepreneurship support under Subcomponent 2.2, the IRR is estimated at between 15 percent and 45 percent and the payback period at two to four years. In addition to the effects on earnings and the directly attributable effects of Component 1, Subcomponent 2.1, and Subcomponent 2.2, 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.



Supporting Client-centric Public Employment Services

4. Evaluations of public employment services generally find relatively low costs and positive impacts on employment and earnings outcomes that are significant in the short term and stable over time.⁴⁴ According to credible experimental evidence, public employment services shorten unemployment spells among ‘hard-to-place’ jobseekers in Germany by 32 to 51 days per person relative to private job-search agencies while the public provision of counselling to jobseekers in France reduces unemployment benefit receipt by 18 days per year.⁴⁵

5. The expected number of beneficiaries per year is computed from the LFS 2014 combined with population estimates. The IRR is estimated under various assumptions regarding registration rates, intervention effectiveness, durability of intervention, and discount rates.⁴⁶

- (a) **Registration rates.** Only one-third of jobseekers (both male and female) are currently registered with labor and social welfare offices. Registration rates are assumed to be between 33 percent and 43 percent. Even the upper bound appears to be quite conservative.
- (b) **Intervention effectiveness.** Currently, an average jobseeker spends about seven months looking for work. The reformed public employment services are assumed to reduce the duration of unemployment by 5 percent to 15 percent. This translates into a shortening of unemployment spells by 7 to 23 days. These assumptions are on the lower end of the effects described in the literature. The unemployment days reduced are valued at the 25th percentile of the daily wage distribution in the LFS 2014.
- (c) **Intervention durability.** The institutional reforms planned in Component 1 are intended to be long-lasting with benefits accruing over time as it serves the future cohorts of jobseekers. The intervention is assumed to be effective for 20 to 50 years.

⁴⁴ Betcherman, Gordon, Amit Dar, and Karina Olivas. 2004. “Impacts of Active Labor Market Programs: New Evidence from Evaluations with Particular Attention to Developing and Transition Countries.” Discussion Paper. World Bank; Card, David, Jochen Kluve, and Andrea Weber. 2015. “What Works? A Meta Analysis of Recent Active Labor Market Program Evaluations.” Discussion Paper. National Bureau of Economic Research.

⁴⁵ Krug, Gerhard, and Gesine Stephan. 2016. “Private and Public Placement Services for Hard-to-Place Unemployed Results from a Randomized Field Experiment.” ILR Review; Behaghel, Luc, Bruno Crépon, and Marc Gurgand. 2014. “Private and Public Provision of Counseling to Jobseekers: Evidence from a Large Controlled Experiment.” *American Economic Journal: Applied Economics*.

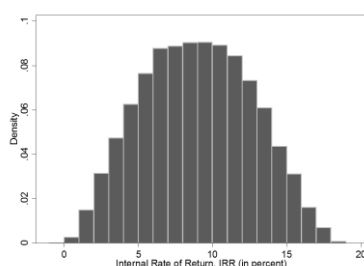
⁴⁶ The cost-benefit analysis makes several other assumptions. It assumes that the component only reaches people ages 15 to 34 with secondary or lower levels of schooling who are looking for jobs in Ulaanbaatar and *aimag* centers and combines population estimates from the United Nations Department of Economic and Social Affairs with the share of youths looking for jobs obtained from the LFS to estimate the number of jobseekers reached in a year. It further assumes that a beneficiary, upon taking up employment, earns wages equal to the 25th percentile of the wage distribution of the relevant population. IRRs are estimated separately by gender and then aggregated.



- (d) **Discount rates.** The discount rates are assumed to be between 6 percent and 12 percent per year. These discount rates reflect the bleak growth rate forecast for Mongolia (2 percent in 2017 and 3.5 percent in 2018).⁴⁷

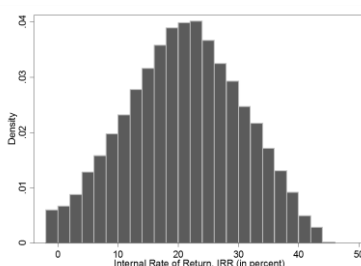
6. Figure 3 shows the distribution of IRRs generated under the various assumptions. This distribution has a median of 9 percent. The mean is 9 percent as well and the standard deviation 3.7 percent. A quarter of the IRRs are below 6.2 percent and a quarter are above 11.8 percent. These scenarios suggest a median payback period of 8.1 years with 6.2 and 11.6 years being the top and bottom quartiles, respectively.

Figure 3. Distribution of IRRs for Component 1



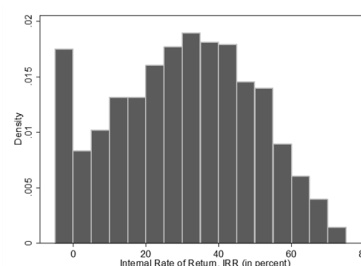
Note: All scenarios that yield negative net present values (NPVs) are given a value of –1 percent IRR.

Figure 4. Distribution of IRRs for Subcomponent 2.1



Note: All scenarios that yield negative NPVs are given a value of –1 percent IRR.

Figure 5. Distribution of IRRs for Component 2.2



Note: All scenarios that yield negative NPVs are given a value of –1 percent IRR.

Integrated Employment Training Program

7. Studies find that comprehensive training programs generally have high and stable returns over time. Some literature reviews indicate that training programs tend to have small effects in the short run (because of foregone income during training), but their returns tend to increase in the medium and longer runs.⁴⁸ Only few rigorous studies follow the beneficiaries for a long period post training. In one such example, an impact evaluation of *Jovenes en Acción* in Colombia, large returns to training are present 10 years after the training.⁴⁹ Women who received training earned 17.7 percent more than the control group. The training premium was 10.7 percent for men, but the effect was statistically insignificant. Mongolia's LFS shows that receiving generic training increases the probability of wage employment as well as earnings. Male youths with training earn 9 percent more than those without, whereas female youths with training earn 15 percent more. These returns, though purely correlational, are of similar magnitude as those in Colombia.

⁴⁷ World Bank. 2016. "Reducing Vulnerabilities." East Asia and Pacific Economic Update. The discount rates used in these calculations follow the World Bank guidelines on discounting costs and benefits. They are related to the growth rate and the intertemporal elasticity of substitution through the Ramsey equation. Usually, the elasticity is estimated to lie between 1 and 2 (higher numbers are more conservative). The range used here comfortably accommodates conservative estimate of this elasticity at the current forecasted growth rate and also has leeway to allow higher actual growth rates in the future.

⁴⁸ Card, David, Jochen Kluge, and Andrea Weber. 2015. "What Works? A Meta Analysis of Recent Active Labor Market Program Evaluations." Discussion Paper. National Bureau of Economic Research.

⁴⁹ Attanasio, Orazio, Arlen Guarín, Carlos Medina, and Costas Meghir. 2015. "Long Term Impacts of Vouchers for Vocational Training: Experimental Evidence for Colombia." Working Paper. National Bureau of Economic Research.



8. The cost per beneficiary is US\$355. IRRs are estimated under various combination of scenarios of share of women, intervention effectiveness and durability, and discount rates.⁵⁰

- (a) **Share of women.** It ranges from 43 percent (status quo for all training from LFS) to 50 percent.
- (b) **Intervention effectiveness.** To accommodate the dispersion in estimates in the literature, it is assumed that men will earn 1 percent to 10 percent higher relative to their counterfactual earnings and that women will earn 5 percent to 15 percent higher compared to their counterfactual earnings (25th percentile of the wage distribution of the target population in the LFS). These assumptions reflect that training often brings higher returns to women than to men.
- (c) **Intervention durability.** Assumption of returns for 10 to 30 years after the training. The average age of the target population is around 20 years, so this range appears reasonable (albeit somewhat conservative).
- (d) **Discount rates.** Again, discount rates are assumed to be between 6 percent and 12 percent per year.

9. These assumptions yield a distribution of IRRs with a mean and median of 21 percent per year. As figure 4 shows, the dispersion of the estimates is high. For instance, a small number of scenarios (1 percent) yield a negative IRR and 14 percent of the simulated scenarios yield an IRR less than 10 percent. The lower and upper quartiles of the estimates are 14.3 percent and 27.9 percent, respectively. This implies a median payback period of 3.6 years, with 2.8 and 5.1 being the lower and upper quartiles, respectively.⁵¹

Support for Micro-entrepreneurs

10. Evaluations of micro-entrepreneurship support show wide and varying returns. Microlending alone and to average individuals has consistently shown no substantive gains in income or business formation.⁵² At the same time, the returns to capital invested in microbusiness are found to be quite high. An evaluation of a grant program in Sri Lanka finds average marginal returns to capital of 55 percent to 63 percent per year. While these gains were coming only from males, a follow-up study that combined a capital injection with business training for women found positive returns also for women.⁵³ The marginal

⁵⁰ The counterfactual earnings for the beneficiaries are taken from the 25th percentile of the wage distribution of the core target population in the LFS. This assumption is conservative as the earnings potential of those who seek training is likely to be higher than those who do not. Furthermore, no counterfactual earnings growth over the course of the working life is assumed.

⁵¹ A wage premium of 5 percent would yield a positive NPV even if the earnings effect lasted only 10 years.

⁵² Banerjee, Abihijit, Esther Duflo, Rachel Glennerster, and Cynthia Kinnan. 2015. "The Miracle of Microfinance? Evidence from a Randomized Evaluation." *American Economic Journal: Applied Economics*; Crépon, Bruno, Florencia Devoto, Esther Duflo, and William Parienté. 2015. "Estimating the Impact of Microcredit on Those Who Take It Up: Evidence from a Randomized Experiment in Morocco." *American Economic Journal: Applied Economics*.

⁵³ De Mel, Suresh, David McKenzie, and Christopher Woodruff. 2009. "Returns to Capital in Microenterprises: Evidence from a Field Experiment." *Quarterly Journal of Economics*; De Mel, Suresh, David McKenzie, and Christopher Woodruff. 2014. "Business Training and Female Enterprise Start-Up, Growth, and Dynamics: Experimental Evidence from Sri Lanka." *Journal of Development Economics*.



rate of return was close to 100 percent in a year, but the gains faded quite quickly in the second year. Another study in Uganda finds the returns to be higher for loans combined with training relative to simply providing grants, a result that is confirmed by meta-regressions.⁵⁴ Lessons from these carefully conducted evaluations have been reflected in the program design that focuses on the careful selection of beneficiaries and provision of both financial and nonfinancial support.

11. As part of Subcomponent 2.2, beneficiaries will receive a low-interest loan from financial providers, which they will pay back in two years. The cost of the microlending to the project is, therefore, only the cost of nonfinancial support plus the difference between loans priced at a commercial rate at the low end of the commercial interest rate range and fully market-based interest plus the risk of default. Hence, 25 percent of the loan is assumed as the annual cost of lending. This rate accommodates the Bank of Mongolia's current policy rate of 15 percent and a default rate of up to 10 percent. With these conservative assumptions, the average cost per beneficiary is US\$750, with an average loan amount of US\$2,230. Further, half of the beneficiaries are assumed to be women.

12. Compared to the literature that shows massive returns but effects that dissipate quicker, smaller returns but slightly longer lasting effects are assumed. This is because the amount of capital injected into microenterprises through the project is significantly higher than in most comparable studies. It assumes that it is unlikely to achieve the same rate of returns at higher levels (because of diminishing returns), but at the same time greater funds may help the entrepreneurs relieve more severe constraints or reinvest larger share of their profits to generate sustained returns. IRRs are calculated under the following parameters:

- (a) **Intervention effectiveness.** To accommodate the dispersion in estimates in the literature, average marginal rate of return on the loan for men will be between 15 percent and 60 percent and for women between 10 percent and 25 percent. These scenarios reflect the fact that the literature shows lower returns for women.
- (b) **Intervention durability.** As noted earlier, estimates for the duration of effect are scant as only a few studies follow microbusinesses for more than a couple of years. Effects are assumed to last for two to five years.
- (c) **Discount rates.** Again, discount rates are assumed to be between 6 percent and 12 percent per year.

13. These assumptions yield an IRR distribution with a mean and median of 31 percent per year. As figure 5 shows, the dispersion of the estimates is high. About 9 percent of the scenarios yield a negative IRR. The lower and upper quartiles of the estimates are 15.2 percent and 44.6 percent, respectively. This implies a median payback period of 2.3 years with 1.7 and 3.5 years being the lower and upper quartiles, respectively.

⁵⁴ Fiala, Nathan. 2014. "Stimulating Microenterprise Growth: Results from a Loans, Grants and Training Experiment in Uganda." Working paper. German Institute for Economic Research; Cho, Yoonyoung, and Maddalena Honorati. 2014. "Entrepreneurship Programs in Developing Countries: A Meta Regression Analysis." *Labour Economics*.



Employment Promotion Piloting Program

14. The Employment Promotion Piloting Program will support a range of EPPs at the local level. The range of possible interventions makes it challenging to quantify the program's expected effects. Moreover, while similar decentralization programs are widespread, in particular in Organisation for Economic Cooperation and Development countries, their precise institutional setup varies. At the same time, process evaluations of decentralization programs demonstrate that given an appropriate management and accountability framework decentralization has several positive effects, as summarized in an analytical paper by the European Commission: (a) local decision makers know local needs better and are better at devising local strategies; (b) decentralization results in sensitive adaption of policies to local needs; (c) local ownership promotes better performance; (d) local flexibility promotes upward competition; and (e) flexibility allows local public employment services to build ties with other local service providers.⁵⁵

Labor Market Monitoring and Analysis

15. While effects of labor market monitoring and analysis are hard to quantify, it is well understood that information can address market failures because of incomplete information and change behaviors. For instance, high school students in Toronto who were given information on the costs and benefits of higher education were more likely to look up additional information about higher education and specific colleges and universities online and an information campaign for college students in New York that focused on providing accurate information on returns to schooling had a large impact on beliefs and choices of students.⁵⁶ As part of Subcomponent 3.1, the project will expand the access to and quality of available information on Mongolia's labor market to give institutional and individual users such as jobseekers, students seeking career advice, and employers the information they need to make informed decisions. The MLSP is not able to produce pertinent, up-to-date, and granular labor market information. The closing of this information gap will reduce the time spent by young people, rural-to-urban migrants, women, and other groups looking for employment and promote the efficient allocation of labor and human capital. Besides, it will also give users information on skills demand and supply. Over time, this information will reduce structural unemployment caused by skills mismatches.

Rationale for Public Sector Financing

16. Public sector financing of the project is warranted both from an efficiency and from an equity perspective. While both the efficiency and the equity considerations provide a strong rationale for public financing, they do not imply that all the activities need to be publicly provided. On the contrary, in many cases (for example, for employment trainings and support for micro-entrepreneurs) private provision or public-private partnerships will be more efficient than and just as equitable as public provision.

⁵⁵ European Commission. 2014. "Central Steering and Local Autonomy in Public Employment Services." Analytical Paper; Organisation for Economic Cooperation and Development (OECD), and Italian Ministry of Labor. 2008. "Decentralisation and Co-Ordination: The Twin Challenges of Labour Market Policy." Venice Action Statement

⁵⁶ Oreopoulos, Phil, and Ryan Dunn. 2013. "Information and College Access: Evidence from a Randomized Field Experiment. Scandinavian." *Journal of Economics*; Wiswall, Matthew, and Basit Zafar. 2011. "Determinants of College Major Choice: Identification using an Information Experiment." *Journal of Labor Economics*.



17. With regard to efficiency arguments for public financing, 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 public employment services can also be considered a public good and therefore warrants public financing. Effective employment training programs might not be possible without government financing because of coordination failures between jobseekers interested in the training and training providers and because such training programs have positive external effects that go beyond the benefits directly attributable to the training beneficiaries. Finally, without public financing of support to micro-entrepreneurship, credit constraints and asymmetric information might prevent potential micro-entrepreneurs from actually starting their own business.

18. Concerning arguments related to equity, without public financing effective employment support might only be available for affluent and well-connected individuals. More specifically, without public financing private employment services might ignore poor jobseekers, labor market information might not be available publicly (or not at all), and private providers of training and micro-entrepreneurship support might engage in 'cream skimming'. Moreover, without public financing of employment support services, a very high proportion of job matches might happen through informal channels. This would reinforce disadvantages for those individuals who are less connected to the labor market to begin with (such as youth, women, the poor, and rural-to-urban migrants).

Rationale for the World Bank Involvement

19. The World Bank will add value to the project's successful implementation through four channels. First, it will contribute knowledge on best practices and experiences from pertinent analytical and lending projects from around the world. Second, it will provide predictable, stable, and sustainable financing for active labor market programs to complement the more volatile and generally procyclical existing funding through the Government. Third, the World Bank engagement will focus on areas that currently see relatively little attention from other development partners. These generally focus more on the supply side of employment support policies and programs (for example, on the development of national qualification standards for technical and vocational education) than on linking demand and supply. In this context, the World Bank's convening power will be a key asset to ensure a holistic approach for improving employment outcomes in Mongolia and coherence and coordination between development partners. Finally, 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 activities supported as part of Subcomponent 2.2.



ANNEX 5: IMPACT EVALUATION

1. The project will include a rigorous impact evaluation of the support for micro-entrepreneurs provided as part of Subcomponent 2.2. This impact evaluation will aim to answer the following questions: What are the effects of a program that combines financial and nonfinancial support on entrepreneurship knowledge, attitudes, and practices; employment; and well-being (measured through variables such as business earnings, employment status, and consumption)? Is the intervention cost-effective on a per-beneficiary basis? Are there heterogeneous effects for men and women or between other subgroups? By answering these questions, the impact evaluation will increase the knowledge about the effectiveness of one of the MLSP's flagship active labor market programs, foster evidence-based policy making and the efficient allocation of scarce resources, and promote a global public good in the form of increased knowledge on programs that support micro-entrepreneurship.⁵⁷
2. The precise methodology for the impact evaluation will be jointly agreed by the World Bank and the MLSP. It will either involve a randomized control trial (RCT) or rigorous quasi-experimental methods. RCTs represent the highest standard of impact evaluation evidence in development. The central design feature of the RCT approach is that the treatment group is randomly selected, so that, for the purposes of statistical analysis, treatment and control groups are indistinguishable, save for the fact that the treatment group is subjected to the innovation whose impact the study is evaluating. Quasi-experimental designs are likewise highly rigorous approaches to gathering evidence that isolates the impact of development innovations. While these methods do not randomly assign participation in treatment and control groups, they use econometric techniques to exploit features of the process of how and where innovations are implemented that introduce random variation.⁵⁸
3. No matter whether the impact evaluation will be realized using an RCT or a quasi-experimental methodology, it will make use of the points-based approach for screening applications for entrepreneurship support according to vulnerability-based priority criteria. This will result both in a clear cutoff value with regard to whether an applicant is longlisted for program participation and an underlying points distribution which makes it possible to rank all applicants. For an RCT, applicants with scores around the cutoff value would be randomly assigned the longlist or not, whereas in the absence of randomization a so-called regression discontinuity design could exploit the fact that applicants just below and just above the cutoff have practically identical characteristics but only some will 'quasi-randomly' be longlisted.⁵⁹
4. To implement the impact evaluations, at least two rounds of household surveys will be conducted, one after applications for the micro-entrepreneurship support have been received but before decisions with regard to longlisting have been announced and another at least six months after microloans have been delivered. An independent survey research firm will be contracted to conduct the fieldwork and the PIU will be in charge of supervising its practical implementation. The World Bank will closely support the

⁵⁷ Considering sample size and bias, the flexible design of the support for micro-entrepreneurs provided as part of Subcomponent 2.2 potentially also allows for evaluations of different treatment effects of varying combinations of services.

⁵⁸ Asim, Salman, Robert Chase, Amit Dar, and Achim Schmitten. 2016. "Improving Learning Outcomes in South Asia: Findings from a Decade of Impact Evaluations." *World Bank Research Observer*.

⁵⁹ As not all longlisted applicants will in fact be beneficiaries of the micro-entrepreneurship support (because of the shortlisting process by the Selection Panel and the decision regarding the applicants' creditworthiness by PFIs), appropriate power calculations will be undertaken to account for incomplete take-up.



PIU during all stages of the impact evaluation—in particular with regard to issues such as the design, implementation, supervision, and dissemination—and will also support a strengthening of the capacity of the MLSP in general and the LSPRI in particular to independently conduct impact evaluations in the future. 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.

5. The MLSP has a strong interest in using impact evaluations to better understand the impacts of activities supported through the project. As part of project implementation support, the World Bank will explore avenues for accessing external financing to conduct additional impact evaluations.



ANNEX 6: BACKGROUND ON FINANCIAL INTERMEDIARY FINANCING

1. **Objectives.** Subcomponent 2.2 will support new opportunities for starting and growing a sustainable microenterprise with a focus on job creation through the provision of comprehensive and flexible support. According to Mongolia's Employment Promotion Law, microenterprises are business entities with invested capital and annual sales of up to MNT 50 million (approximately US\$22,000 at current exchange rates) and most project beneficiaries are expected to run microenterprises that are much smaller still. The component addresses labor market constraints related to a lack of labor demand and more specifically to the development of a growing and productive microenterprise sector because of nonfinancial and financial constraints, including through a line of credit of approximately US\$6,000,000.
2. While the PDO is not related to increasing financial inclusion, developing the financial sector or fostering any other objectives directly related to financial intermediary financing, Subcomponent 2.2 includes a line of credit. Therefore, the project is designed to be in compliance with the World Bank's policy on financial intermediary financing. The applicable background information is summarized in this annex, which also draws on relevant background work conducted as part of project preparation.
3. **Context.** A large segment of Mongolia's economy depends on the extraction and export of natural resources. This has led to a pronounced cyclicity in economic activity. Between 2010 and 2014, when commodity prices were high, Mongolia experienced strong economic growth. Since 2014, the dampening of commodity markets and slower growth in China (Mongolia's main trading partner) have led to a fall in export earnings and FDI inflows. The result has been a dramatic slowdown in Mongolia's growth. The country's GDP growth rate fell from 7.9 percent in 2014 to 2.4 percent in 2015 and is expected to slow even further in 2016, to less than 0.1 percent. Mongolia's medium-term outlook is more positive as a recovery in FDI inflows is projected to again begin to support growth. The MF currently forecasts Mongolia's GDP growth to stay below 1.0 percent in 2017 but to bounce back to 3.5 percent in 2018 and to 5.1 percent in 2019.
4. With regard to inflation rates, these were relatively elevated when commodity prices were high. But in recent years they have decelerated substantially. In 2014, consumer prices increased by 12.9 percent while in 2015 they grew by 5.9 percent. According to IMF forecasts, inflation will be 2.4 percent in 2016. It is forecast to pick up again thereafter but to remain between 5 percent and 7 percent between 2017 and 2021. The Bank of Mongolia's benchmark interest rate was last recorded at 15 percent which is the highest level at which it has ever been during the last 10 years. According to Trading Economics data, from 2007 until 2016 the benchmark interest rate has averaged about 12 percent. Its record low during the period was in July of 2007 when it was 6.4 percent.
5. As stated by a World Bank Financial Sector Assessment, Mongolia's financial sector is dominated by the banking sector, accounting for 96 percent of financial sector assets (see table 8). The banking sector comprises 14 commercial banks, 13 of which are private domestic banks, and 1 is a state-owned bank. All commercial banks are supervised by the Bank of Mongolia (Mongolia's central bank). The banking system is highly concentrated, with the three largest banks together having about a 70 percent of market share in terms of assets, and the five largest banks accounting for over 86 percent of the market with respect to assets. Only a very small fraction of financial sector assets—that is, around 2 percent—are held by NBFIs



supervised by the Financial Regulatory Commission. After an industry crisis and the failure of several SCCs in the mid-2000s, these kind of financial institutions play an even smaller role.⁶⁰

⁶⁰ World Bank. 2012. *Financial Sector Assessment Mongolia*. Report.



Table 8. Structure of the Financial Sector, 2012–2015

	2012			2013			2014			2015		
	Number	Assets MNT billion	Percent of Total	Number	Assets MNT billion	Percent of Total	Number	Assets MNT billion	Percent of Total	Number	Assets MNT billion	Percent of Total
Commercial banks	14	11,992	96.6	13	20,883	97.3	13	22,582	96.8	13	21,521	96.1
Insurance companies	17	108	0.9	16	126	0.6	16	153	0.7	15	147	0.7
SCCs	162 (in 2011)	68	0.5	141	74	0.3	159	81	0.3	253	98	0.4
NBFIs	212	252	2.0	263	381	1.8	378	508	2.2	450	623	2.8
Total	243	12,420	100.0	433	21,464	100.0	566	23,324	100.0	731	22,389	100.0

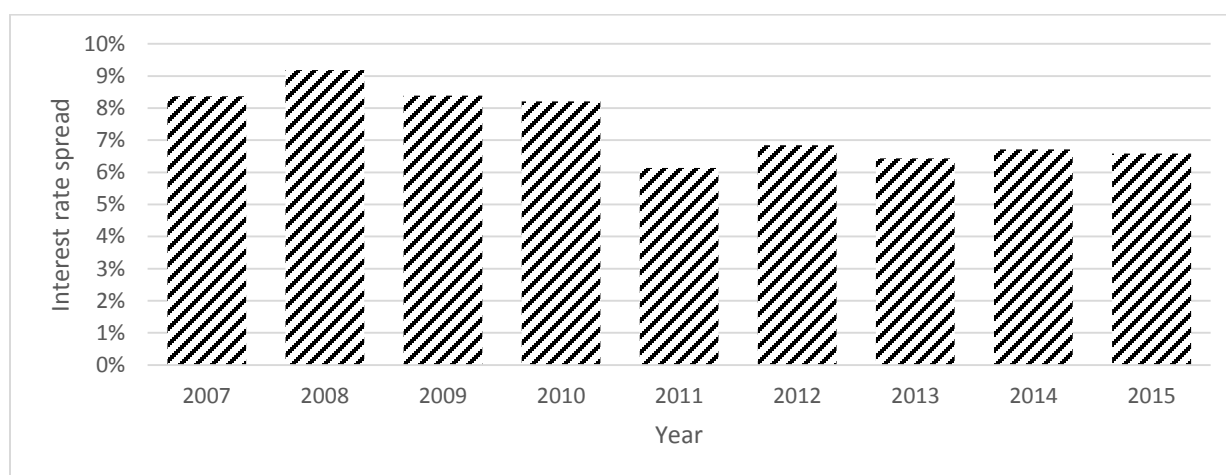
Sources: Bank of Mongolia and Mongolia Financial Regulatory Commission.



6. **Constraints.** While financial intermediation has been growing fast, enterprise surveys and interviews with stakeholders suggest that access to finance remains a top constraint for firms, especially for micro-, small-, and medium-size enterprises. Financial constraints are so significant that more than 30 percent of firms in Mongolia perceive access to finance as the biggest problem to their operations, a number that is higher than the average of 17 percent in the East Asia and Pacific Region. According to the ADB, 90 percent of Mongolian small and medium-size enterprises do not have regular access to finance from banks. For firms with fewer than 20 employees, access to finance is the biggest business environment obstacle.⁶¹

7. The World Bank Financial Sector Assessment documents that for microenterprises but also small and medium-size enterprises, access to finance is constrained by unfavorable loan terms and conditions. Banks have significant funding constraints in providing long-term finance to micro-, small-, and medium-size enterprises because of the shortage of longer-term funding sources, resulting in unfavorable loan terms and conditions. The most constraining factors are (a) high interest rates (lending rates and spreads in Mongolia are relatively high compared to other countries—in 2015 interest spreads stood at about 7 percent; see figure 6); (b) short loan maturities; (c) relatively small loan sizes; and (d) stringent collateral requirements based primarily on immoveable assets.⁶²

Figure 6. Interest Rate Spread 2007–2015



Source: World Development Indicators.

8. With regard to (potential) micro-entrepreneurs and the specific constraints they face, a survey in 30 locations in Ulaanbaatar in 2013 indicated that in accordance with the findings of the World Bank Financial Sector Assessment, collateral requirements and high interest rates were the two most commonly cited reasons that prevented unemployed individuals interested in starting a microbusiness from obtaining microloans.⁶³ While banks continue to largely ignore microenterprises (only 10 percent of their loans go to such enterprises) and to impose costly collateral conditions, most NBFIs and SCCs remain small and underdeveloped. In addition, while most of lending from NBFIs (70 percent–80 percent) is to micro-

⁶¹ World Bank and IFC. 2013. *Mongolia Enterprise Survey*.

⁶² World Bank. 2012. *Financial Sector Assessment Mongolia*. Report.

⁶³ Capital City Labor Department. 2016. *Capital City Poverty Reduction Program to Support Micro Businesses*. PowerPoint slides.



entrepreneurs and small enterprises, even before the current economic slowdown average interest rates for loans issued by NBFIs stood at 2.9 percent a month (almost double the banks' interest rates). This meant that financing from NBFIs was often out of reach of the most vulnerable micro-entrepreneurs. SCCs provide primarily savings and loan services to low-income and rural households but at 3 percent to 3.5 percent per month even before the current economic slowdown their lending rates were triple the rates quoted by banks.⁶⁴

9. **Implementation.** Subcomponent 2.2 will provide a line of credit through arrangements that build on and strengthen those of the microloans of the MLSP's existing Entrepreneurship Development Program. Relevant implementation arrangements will be documented in an on-lending agreement between the MOF and the MLSP. The MOF and MLSP intend to sign this agreement prior to disbursement of Category 2 expenditures and the World Bank will comment on a draft of the agreement.

10. For microcredits of the existing Entrepreneurship Development Program, funds are channeled through the MLSP's EPF and then onwards to PFIs and finally beneficiaries (sub-borrowers) in the form of microloans. The Entrepreneurship Development Program's principle of partnering with banks to distribute microloans is assessed as sound, the program successfully strengthens women's opportunities as entrepreneurs, and the MLSP will continue to provide some of the funding for micro-entrepreneurship support. However, a number of design weaknesses of the Entrepreneurship Development Program exist that limit program access by youth and other groups most in need of support, as documented in background work for this project. The most pressing of these design weaknesses will be addressed as part of World Bank support. Figure 7 shows the planned flow of funds from the World Bank to the final beneficiaries based on the two-tier structure.

11. Subcomponent 2.2 is not expected to lead to an inflow of a significant amount of new funds into Mongolia's financial system. Instead, World Bank funds will largely replace existing MLSP funds during a time when the main funding mechanism for the EPF is under pressure due to Mongolia's difficult macroeconomic environment. It is expected that the MLSP will use some of its own funding that is replaced by World Bank funding during the duration of the project for other employment promotion measures while committing to again provide financial support to micro-entrepreneurs after project closure. Because Subcomponent 2.2 will provide a line of credit through arrangements that build on and strengthen those of the microloans of the MLSP's existing Entrepreneurship Development Program, its implementation arrangements will also reduce implementation complexity, and increase local ownership and sustainability.

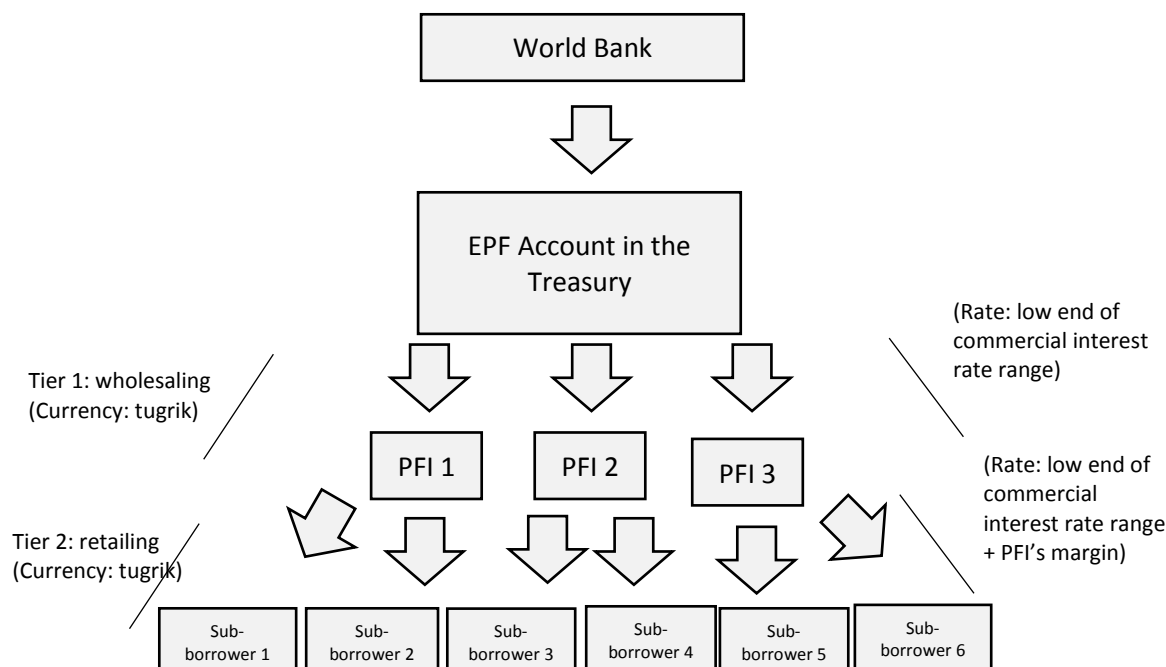
12. The EPF has been established, is regulated under Mongolia's Employment Promotion Law, and is essentially a budgetary line item. Its purpose is to finance the activities of the EPPs, such as vocational training, small business support, microloans, and labor intermediation. Funds are allocated to the EPF on an annual basis through approval by the Parliament as well as the Minister of Labor and Social Protection under consideration of the view of the tripartite National Labor Council. The budget for the EPF is reflected in the state budget. All expenditures related to the provision of loans will be reflected in the EPF's accounting records and financial reports which are subject to annual audit by the MNAO. A clean auditors' opinion (unqualified) was issued on the fiscal year 2015 EPF financial statements. The project technical

⁶⁴ World Bank. 2012. *Financial Sector Assessment Mongolia*.



task team will review the detailed EPF operations, which will be documented in the EPF manual. Specific funding, payment, and control policies will be documented in the Operations or EPF Manual.

Figure 7. Flow of Funds for Financial Intermediary Financing of Subcomponent 2.2



13. In principle, the Employment Promotion Law mentions various funding sources, including allocation from the state or local budget and loans, credits and grants from foreign countries and international organizations. In practice, current funding for the EPF mostly comes from employers that hire foreign citizens on a contractual basis. Table 9 summarizes key data on microloans granted by the EPF through PFIs to beneficiaries during the last years. The number of loans and the total amount has varied substantially over the last few years, partly due to the volatile financing determined by the number from employers that hire foreign citizens each year. More detailed analysis of recent portfolio data from one of the participating banks indicates that repayment rates are relatively high, more than 96 percent of payments are on time, and less than 2.5 percent are more than 30 days late. Booked loan losses are small.

Table 9. Key Data on Microloans Provided by the EPF

Indicator	2013	2014	2015	2013–2015
Number of microloans	600	5,748	1,483	7,831
Average microloan size (MNT)	3,826,798	3,490,237	3,850,034	3,584,160
Total microloan value (MNT)	2,296,075,000	20,061,883,198	5,709,599,990	28,067,558,188



14. During project preparation, grants to microenterprises were initially considered as a potential alternative for addressing financial constraints of the target groups but it was decided that microcredits would be the more appropriate instrument for the following reasons: (a) political economy concerns and the possibility of elite capture of grants; (b) demand (observed through focus group discussions and other stakeholder insights) among the micro-entrepreneur community for resources to increase business productivity beyond what could be appropriately financed with grants; (c) an established government-supported microlending environment; and (d) a growing ecosystem of credit providers relevant to the target population that can be facilitated to work through the project.

15. Guarantees were another possible instrument that was discussed during project preparation, especially in light of the stringent collateral requirements demanded by commercial banks in Mongolia. While it was ultimately decided that the complexity of setting up a guarantee scheme would be beyond the scope of Subcomponent 2.2, the provision of comprehensive nonfinancial support and strengthened targeting and selection procedure as part of the subcomponent are expected to improve the success of microenterprises and in turn lead banks to impose lower collateral requirements, at least over the medium term.⁶⁵

16. **Selection of PFIs.** The selection of PFIs will be based on the principle that strong and capable PFIs are most likely to deliver financial intermediary financing funds to viable subprojects consistent with project objectives, making a positive contribution toward the realization of such objectives. PFIs will be selected at project outset by the MLSP under the provision of no-objection by the World Bank through open bidding among all eligible financial institutions. Open bidding will assure that World Bank financing will not undercut competition by giving undue advantage to some financial intermediaries relative to others. All financial institutions that meet the eligibility criteria will be able to access the financial intermediary financing funds on equivalent terms. A model contract between the MLSP and a PFI will be included in the EPF manual.

17. Loans from the EPF to PFIs will be priced at a commercial rate at the low end of the commercial interest rate range. To make sure that PFIs' incentive to develop more permanent long-term funding sources (such as deposits) will not be undercut, proposed on-lending rates from PFIs to beneficiaries will be a key factor in the bidding process, as an efficient means to establish on-lending rates that are not excessive but at the same time adequate to increase access to finance for beneficiaries, cover all costs incurred by PFIs, and provide a profit margin adequate to encourage lenders to compete. It is expected that as in the current Entrepreneurship Support Program, the margins of PFIs will be comparable to those documented with respect to other long-term funding sources. In any case, as already mentioned, World Bank funding will largely replace MLSP funding and, overall, the World Bank line of credit will only represent an almost negligible share of available funding both in Mongolia's banking sector and for PFIs.

18. Rates from the EPF to PFIs will be set so as to (a) be above the rate of inflation, (b) cover marginal administrative costs, and (c) include some kind of minimal risk premium. In practice, the rate might, for example, be equal to the average annualized inflation rate over the preceding three quarters and a 0.5 percentage point premium to cover administrative costs and risks. Precise details on lending rates will be

⁶⁵ Beneficiaries without adequate collateral may also have access to the CGFM, even though this would require the establishment of necessary legal provisions as access of microenterprises to the CGFM is currently restricted.



provided in the EPF manual and, by mutual agreement between the MLSP and the World Bank, can be adjusted over time to reflect changes in the financial sector and market-based interest rates.

19. Both loans to PFIs and to beneficiaries (sub-borrowers) will be issued in Mongolian tugrik and will have an initial maturity of at least four years. They will be issued in four tranches, in year 1 and year 2 of project implementation in line with the implementation timeline of micro-entrepreneurship support. After the end of the initial maturity period and as to be specified in the on-lending agreement between the MOF and the MLSP, loans to PFIs will either be rolled over or returned to the Government of Mongolia possibly again to be used for employment support purposes, including new lines of credit for micro-entrepreneurship support. Neither the EPF nor the PFIs nor the sub-borrowers will take up any exchange rate risk.

20. Eligibility of financial institutions will be determined by the MLSP (which has regularly been selecting PFIs for its existing lines of credit) under the provision of no-objection by the World Bank and will be subject to compliance with Government of Mongolia regulations and World Bank policies. Before the bidding process, the MLSP will carry out due diligence on potential PFIs to assess their suitability to participate in the project. Eligible financial institutions will need to demonstrate (a) adequate profitability, capital, and portfolio quality; (b) acceptable levels of loan collections; (c) appropriate capacity; (d) capacity to mobilize domestic resources; (e) adequate managerial autonomy and commercially oriented governance; and (f) appropriate prudential policies, administrative structure, and business procedures. Details on the procedure for selecting PFIs and the precise eligibility criteria will be provided in the EPF manual. As the PDO does not include the fostering of Mongolia's financial sector, it is not envisaged to use project funds to provide technical assistance to establish institutional development plans to enable nonqualified PFIs to become eligible.

21. Currently, Mongolia's Employment Promotion Law stipulates that only banks can be providers of microloans through EPPs. This means that it is expected that only banks will be able to become PFIs. While NBFIs and SCCs are sometimes present across wider areas of Mongolia and in particular in the countryside, in the existing Entrepreneurship Development Program, banks are in fact able to effectively reach beneficiaries both in different districts of Ulaanbaatar and in *aimag* centers. There will be no direct implementation of Subcomponent 2.2 in the countryside. Should legislative changes occur that allow the inclusion of NBFIs, SCCs or similar more traditional microfinance institutions, these can potentially be PFIs, subject to compliance with Government of Mongolia regulations and World Bank policies.

22. PFIs will be required to maintain compliance with eligibility criteria throughout project implementation. They will be subject to regular monitoring reviews and a more in-depth review at midterm that will repeat some of the due diligence performed at project outset. Noncompliant PFIs will have their access to the loans suspended and ultimately terminated. More detailed rights and obligations of PFIs will be stipulated in the EPF manual and the contracts between the MLSP and the institutions. In particular, PFIs will bear the full risk of the microloans to beneficiaries. PFIs will also be required to process applications within a designated period, not to reduce the loan amounts set by the Selection Panels, to adhere to agreed-upon collateral requirements and to recycle loans to project beneficiaries within a designated period. The World Bank's Anti-Corruption Guidelines will be referenced in the EPF manual and in all contracts between the MLSP and PFIs.



23. As a noncommercial entity, the EPF will not be subjected to explicit eligibility criteria. Instead, the World Bank will continuously monitor that the MLSP has the necessary capacity and knowledge for the EPF to perform the assigned apex role, including especially the capacity to assess competence and creditworthiness of PFIs. Close monitoring will also ensure that selection of PFIs is done in line with the agreed selection criteria and that portfolio quality is maintained. No conflicts of interest arising from the choice of the EPF as apex are expected.

24. **Beneficiaries.** Microloans provided through Subcomponent 2.2 will in principle be open to all those who are either jobseekers or micro-entrepreneurs. The aim will be to balance selection criteria related to vulnerability and the applicant's likelihood to benefit from the micro-entrepreneurship support. Priority will be given to selection criteria related to vulnerability such as (a) 'citizens having difficulty finding employment' as defined in the Employment Promotion Law; (b) young people ages 18 to 34; (c) TVET and college or university graduates; and (d) poverty status (as for instance measured by PMT scores). Additional selection criteria to capture the likelihood to benefit from the micro-entrepreneurship support will be (a) entrepreneurial aptitude and (b) job creation potential. As the strengthening of women's opportunities has been identified as a key policy recommendation for addressing gender disparities in labor market outcomes, equal representation of genders will also be targeted in addition to an increasing focus on supporting new compared with existing micro-entrepreneurs.⁶⁶ Microenterprises include partnerships and cooperatives. Although not actively encouraged, access by self-organized groups of beneficiaries will not be prohibited. Labor and social welfare offices will oversee outreach activities, collaborating where feasible with youth-serving organizations and high-performing alumni who can conduct awareness-raising and mobilization.

25. Labor and social welfare offices will have the responsibility for managing day-to-day partnerships with PFIs active in their local communities. The inclusion of representatives from PFIs on Selection Panels will facilitate expeditious processing of microloan applications. Beneficiaries will become clients of the PFIs subject to their loan terms under the general product provisions stipulated by this project. PFIs will be allowed to make all credit decisions.

26. Micro loans will be provided in Mongolian tugrik, primarily in a range of MNT 5 million to 10 million (approximately US\$2,200 to US\$4,400 at current exchange rates). To ensure coverage of vulnerable populations with potentially higher credit risks, access to smaller loans (in a range of MNT 2 million to MNT 5 million) will be granted at the discretion of the Selection Panel based on a longlisted applicant's business experience and vulnerability. Microloan sizes have been defined based on feedback from local experts about need and demand from target populations and insights into the cost of starting an informal business in Mongolia. The size of microloans and other financial support arrangements will be revisited periodically and, if appropriate, revised. Microloans will be approved solely for business purposes, typically funding the purchase or repair of equipment, the purchase of materials, investing in quantity or quality of employment or entering new markets.

27. Great care will be taken to minimize interest rate distortions in the market. It is expected that beneficiaries will be able to access loans at rates that are priced at a commercial rate at the low end of the commercial interest rate range but still affordable. The nonfinancial support will emphasize financial literacy and sound business management to help mitigate against beneficiaries becoming dependent on

⁶⁶ World Bank. 2013. "Mongolia: Gender Disparities in Labor Markets and Policy Suggestions." Policy note.



loans priced at a commercial rate at the low end of the commercial interest rate range. To ease graduation to fully market-based financial support, only one single round of follow-up loans will be available up to a maximum of MNT 20 million. Access to follow-up loans will be based on strong repayment and business track records as well as the standard selection criteria. After microloans have been fully repaid, beneficiaries will be signposted to commercial banks, NBFIs, SCCs, or other appropriate financial institutions that at their own discretion and outside the scope of the project may provide them with loans in the future.

28. For beneficiaries, the loan repayment period will be 24 months, but with the first 6 months only interest and a 2-month grace period, given the nature of microbusinesses and the learning curve necessary for changing production techniques and technologies. Given the project objectives to ensure access by vulnerable populations, interest rate relief will be available for the most vulnerable beneficiaries.⁶⁷

29. **Beneficiary screening and selection.** This process will involve both labor and social welfare offices and PFIs. On the side of labor and social welfare offices, the screening and selection process will be overseen by a Selection Panel composed of senior representatives from the labor and social welfare offices, local businesses, youth/entrepreneurship NGOs, high-performing alumni, and PFIs with a suggested composition of five to seven members. It is envisaged that screening and selection will include three phases:

- (a) First, labor and social welfare offices will screen applications according to the vulnerability-based priority criteria. Applicants with scores above a cutoff will be longlisted and attend the relevant pre-loan training to increase their business awareness, knowledge, and skills and to help them develop a viable business plan. The offices will also facilitate counselling to longlisted applicants in preparation for the next phase.
- (b) On completion of the relevant pre-loan training, longlisted applicants are referred to the Selection Panel, which will short-list applications based on the additional selection criteria defined above. Short-listing will include a decision about the appropriate amount of financial support and will partly be based on a business plan developed by the longlisted applicant and may include an in-person interview.⁶⁸
- (c) Short-listed applicants will be referred to PFIs that will evaluate the creditworthiness of short-listed applicants and decide whether microloans can be supplied. Successful candidates will be referred to the relevant post-loan, nonfinancial support services.⁶⁹

⁶⁷ Access by vulnerable populations will be monitored as part of World Bank supervision activities. If warranted, additional measures to ensure access will be taken such as the blending of microloans with small learnings grants.

⁶⁸ Selection Panels may also be granted flexibility to prioritize sectors with growth potential and/or particular local relevance to local economic and social development.

⁶⁹ During regular project supervision and in particular, the midterm review, the World Bank will assess the performance of the selection process, for example, with regard to speed of decision making and whether decisions of Selection Panels are aligned with those of PFIs. If warranted, remedial actions will be implemented.



30. Information on selected candidates will be widely disclosed, and unsuccessful applicants will be provided with one-on-one feedback, including signposting to career counselling and employment services.

31. **M&E and learning.** Strong M&E arrangements will be critical to assessing achievement toward the PDO and to rigorous implementation of the flexible support approach. Monitoring will include the monitoring by the MLSP (a) of PFIs to ensure that they are in continuous compliance with the established eligibility criteria, including in particular, adequate profitability, capital, and portfolio quality and acceptable levels of loan collections and (b) of beneficiaries, including with respect to use of loans for intended business purpose. The World Bank will closely support the monitoring of all arrangements related to financial intermediary financing in Subcomponent 2.2. The midterm review will be used for a more formal stocktaking and if appropriate for revisions of relevant arrangements. An impact evaluation using an experimental or quasi-experimental methodology will be conducted on the impact of Subcomponent 2.2.