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INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF SDR 14.3 MILLION

(US\$ 20 MILLION EQUIVALENT)

TO

MONGOLIA

FOR AN

EXPORT DEVELOPMENT PROJECT

June 14, 2016

Finance and Markets Global Practice  
East Asia and Pacific Region

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**CURRENCY EQUIVALENTS**  
(Exchange Rate Effective May 31, 2016)

Currency Unit = Mongolian Tugrik  
1,993.5 MNT = US\$1.00  
1.00 US\$ = SDR 0.7128

**FISCAL YEAR**  
January 1 – December 31

**ABBREVIATIONS AND ACRONYMS**

<b>AgRe</b>	Agricultural Reinsurance Joint Stock Company	<b>M&amp;E</b>	Monitoring and Evaluation
<b>BCM</b>	Business Council of Mongolia	<b>MGF</b>	Matching Grants Facility
<b>CS</b>	Cabinet Secretariat	<b>MGIM</b>	Matching Grants Implementation Manual
<b>DA</b>	Designated Account	<b>MNCCI</b>	Mongolian National Chamber of Commerce and Industry
<b>EDP</b>	Export Development Project	<b>MNT</b>	Mongolian TUGRIK
<b>EID</b>	Export Insurance Department	<b>MOF</b>	Ministry of Finance
<b>EIS</b>	Export Insurance Subsidiary	<b>MOFA</b>	Ministry of Food and Agriculture
<b>EMDF</b>	Ethnic Minorities Development Framework	<b>MSTAP</b>	Multi-Sectorial Technical Assistance Project
<b>EPP</b>	Export Promotion Program	<b>NGO</b>	Non-Governmental Organization
<b>ESMF</b>	Environment and Social Management Framework	<b>NSO</b>	National Statistics Office
<b>FMM</b>	Financial Management Manual	<b>PIM</b>	Project Implementation Manual
<b>FMR</b>	Financial Monitoring Report	<b>PIU</b>	Project Implementation Unit
<b>GFMIS</b>	Government Financial Management Information System	<b>PMR</b>	Procurement Management Report
<b>GOM</b>	Government of Mongolia	<b>PPLM</b>	Public Procurement Law of Mongolia
<b>GPA</b>	Government Procurement Agency	<b>PSC</b>	Project Steering Committee
<b>IBLI</b>	Index-Based Livestock Insurance	<b>RPF</b>	Resettlement Policy Framework
<b>IBLIP</b>	Index-Based Livestock Insurance Project	<b>SME</b>	Small and Medium Size Enterprises also refer to Firms under Mongolian legislation
<b>IDA</b>	International Development Association	<b>SOE</b>	Statement of Expenditures
<b>ICT</b>	Information and Communication Technologies	<b>SORT</b>	Systematic Operations Risk-Rating Tool
<b>IFR</b>	Interim Financial Report	<b>SRFP</b>	Standard Request for Proposals
<b>IM</b>	Implementation Manual	<b>TOR</b>	Terms of Reference
<b>IPSAS</b>	International Public Sector Accounting Standards	<b>TS</b>	Technical Specifications
<b>ISO</b>	International Standardization Organization	<b>UB</b>	Ulaanbaatar
		<b>US\$</b>	United States Dollars

Regional Vice President:	Victoria Kwakwa
Country Director:	Bert Hofman
F&M Senior Director:	Gloria Grandolini
Practice Manager:	James Seward
Task Team Leader:	Ulle Lohmus

**MONGOLIA**  
**EXPORT DEVELOPMENT PROJECT**

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**PAD DATA SHEET***Mongolia**Mongolia Export Development Project (P147438)***PROJECT APPRAISAL DOCUMENT***EAST ASIA AND PACIFIC**0000009278*

Report No.: PAD942

<b>Basic Information</b>			
Project ID P147438	EA Category F - Financial Intermediary Assessment	Team Leader(s) Ulle Lohmus	
Lending Instrument Investment Project Financing	Fragile and/or Capacity Constraints [ ]		
	Financial Intermediaries [ X ]		
	Series of Projects [ ]		
Project Implementation Start Date 01-Oct-2016	Project Implementation End Date 31-Mar-2021		
Expected Effectiveness Date 30-Sep-2016	Expected Closing Date 30-Jun-2021		
Joint IFC No			
Practice Manager/Manager James Seward	Senior Global Practice Director Gloria M. Grandolini	Country Director Bert Hofman	Regional Vice President Victoria Kwakwa
Borrower: Government of Mongolia			
Responsible Agency: Ministry of Finance			
Contact: Telephone No.:	Manduul Nyamandele (976-51) 267-273	Title: Email:	Head, Financial Policy Department manduul_n@mof.gov.mn
Responsible Agency: Agricultural Reinsurance Company			
Contact: Telephone No.:	Enkhtaivan Ganbold 976-75770002	Title: Email:	CEO enkhtaivan@agreinsurance.mn
<b>Project Financing Data(in USD Million)</b>			
[ ]	Loan	[ ]	IDA Grant
[ X ]	Credit	[ ]	Grant
[ ]		[ ]	Guarantee
[ ]		[ ]	Other

Total Project Cost:	20.78	Total Bank Financing:	20.00
Financing Gap:	0.00		

Financing Source	Amount
BORROWER/RECIPIENT	0.78
International Development Association (IDA)	20.00
Total	20.78

Expected Disbursements (in USD Million)										
Fiscal Year	2017	2018	2019	2020	2021	0000	0000	0000	0000	0000
Annual	3.00	5.50	5.50	4.00	2.00	0.00	0.00	0.00	0.00	0.00
Cumulative	3.00	8.50	14.00	18.00	20.00	0.00	0.00	0.00	0.00	0.00

### Institutional Data

#### Practice Area (Lead)

Finance & Markets

#### Contributing Practice Areas

Trade & Competitiveness

#### Cross Cutting Topics

- Climate Change
- Fragile, Conflict & Violence
- Gender
- Jobs
- Public Private Partnership

#### Sectors / Climate Change

Sector (Maximum 5 and total % must equal 100)

Major Sector	Sector	%	Adaptation Co-benefits %	Mitigation Co-benefits %
Finance	SME Finance	50		
Industry and trade	Agro-industry, marketing, and trade	30		
Industry and trade	Other domestic and international trade	20		
Total		100		

I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.

<b>Themes</b>		
Theme (Maximum 5 and total % must equal 100)		
Major theme	Theme	%
Financial and private sector development	Other Financial Sector Development	20
Financial and private sector development	Micro, Small and Medium Enterprise support	30
Trade and integration	Export development and competitiveness	50
Total		100
<b>Proposed Development Objective(s)</b>		
The development objective of the project is to support Mongolian small and medium size firms (SMEs <sup>1</sup> ) in the non-mining sectors to strengthen their export capabilities and expand access to export markets.		
<b>Components</b>		
<b>Component Name</b>	<b>Cost (USD Millions)</b>	
Component 1: Development of a new line of export finance products	10.00	
Component 2: Export competitiveness enhancement.	8.50	
Component 3: Project Implementation Support	1.50	
<b>Systematic Operations Risk- Rating Tool (SORT)</b>		
<b>Risk Category</b>	<b>Rating</b>	
1. Political and Governance	High	
2. Macroeconomic	High	
3. Sector Strategies and Policies	Moderate	
4. Technical Design of Project or Program	Substantial	
5. Institutional Capacity for Implementation and Sustainability	Moderate	
6. Fiduciary	Moderate	
7. Environment and Social	Moderate	
8. Stakeholders	Moderate	
9. Other	-	
<b>OVERALL</b>	Substantial	
<b>Compliance</b>		
<b>Policy</b>		
Does the project depart from the CAS in content or in other significant respects?	Yes [ ]	No [ X ]

<sup>1</sup> As defined in the Mongolia SME Law. Firms = enterprises.

Does the project require any waivers of Bank policies?	Yes [ ]	No [ X ]
Have these been approved by Bank management?	Yes [ ]	No [ X ]
Is approval for any policy waiver sought from the Board?	Yes [ ]	No [ X ]
Does the project meet the Regional criteria for readiness for implementation?	Yes [ X ]	No [ ]
<b>Safeguard Policies Triggered by the Project</b>	<b>Yes</b>	<b>No</b>
Environmental Assessment OP/BP 4.01	X	
Natural Habitats OP/BP 4.04	X	
Forests OP/BP 4.36	X	
Pest Management OP 4.09		X
Physical Cultural Resources OP/BP 4.11		X
Indigenous Peoples OP/BP 4.10	X	
Involuntary Resettlement OP/BP 4.12	X	
Safety of Dams OP/BP 4.37		X
Projects on International Waterways OP/BP 7.50		X
Projects in Disputed Areas OP/BP 7.60		X
<b>Legal Covenants</b>		
<b>Name</b>	<b>Recurrent</b>	<b>Due Date</b>
Project Implementation Unit	X	
<b>Description of Covenant</b>		
Recipient to maintain a Project Implementation Unit within MOF with a mandate, resources, composition, and staffing satisfactory to the Association.		
<b>Name</b>	<b>Recurrent</b>	<b>Due Date</b>
Project steering committee	X	
<b>Description of Covenant</b>		
Recipient to establish one month after the Effectiveness date, the latest, and maintain a Project steering committee with a mandate, composition, staffing and resources satisfactory to the Association.		
<b>Name</b>	<b>Recurrent</b>	<b>Due Date</b>
Safeguards	X	
<b>Description of Covenant</b>		
Recipient and Project Implementing Entity to carry out the Project in accordance with the environmental and social standards, mitigation arrangements, assessments, plans, and other requirements set forth in the Environmental and Social Management Framework.		
<b>Name</b>	<b>Recurrent</b>	<b>Due Date</b>
Mid Term Review		30-Sep-2018



**Description of Covenant**

The Recipient and the Project Implementing Entity to (i) carry out a mid-term review of the Project and prepare and furnish to the Association a mid-term report documenting progress achieved in the carrying out of the Project and setting out the measures recommended to ensure the continued efficient carrying out of the Project and the achievement of its objective; and (ii) review with the Association such mid-term report.

Name	Recurrent	Due Date	Frequency
Use of Facility outstanding balance		28-Feb-2021	

**Description of Covenant**

Recipient and the Association to begin consultations to reach an agreement in writing on the terms and conditions for the use of any remaining balance in the Facility pursuant to Section IV.C of Schedule 2 to the Financing Agreement.

Name	Recurrent	Due Date	Frequency
Matching Grants implementation	X		CONTINUOUS

**Description of Covenant**

Recipient to screen the Export Development Plans and select for financing those Export Development Plans that meet the eligibility criteria set forth in the Matching Grants Implementation Manual.

Name	Recurrent	Due Date	Frequency
Operation of the Export Insurance Facility	X		CONTINUOUS

**Description of Covenant**

Project Implementing Entity to ensure that the proceeds of the Financing are used solely for the purposes of operating the Facility and for the payment of Eligible Claims, in conformity with appropriate administrative, technical, financial, economic, environmental and social standards and practices acceptable to the Association and in accordance with the provisions of the Project Agreement and the Financing Agreement.

Name	Recurrent	Due Date	Frequency
Annual Report on Operation of the Facility	X		Yearly

**Description of Covenant**

Project Implementing Entity to cause the Export Insurance Subsidiary to furnish to the Recipient and the Association an annual report of the activities of the Facility, in a form acceptable to the Association, showing inter alia: (i) statements of outstanding Export Credit Insurance liabilities; (ii) statements of any Export Credit Insurance policy(ies) issued; (iii) a report on the risk profile of the ECI products supported by the Facility.

Name	Recurrent	Due Date	Frequency
Separate audit reports of the Facility	X		Yearly

**Description of Covenant**

Project Implementing Entity to cause the Export Insurance Subsidiary to furnish a separate audit financial statement on the operation of the Facility, submitted to the Association in 6 months after the end of the fiscal year.

<b>Conditions</b>		
<b>Source Of Fund</b>	<b>Name</b>	<b>Type</b>
IDA	Adoption of Project Implementation Manual	Effectiveness
<b>Description of Condition</b>		
The Recipient has adopted the Project Implementation Manual in form and substance satisfactory to the Association.		
<b>Source Of Fund</b>	<b>Name</b>	<b>Type</b>
IDA	Execution of Subsidiary Agreement	Effectiveness
<b>Description of Condition</b>		
The Subsidiary Agreement has been executed on behalf of the Recipient and the Project Implementing Entity.		
<b>Source Of Fund</b>	<b>Name</b>	<b>Type</b>
IDA	First tranche capitalization	Disbursement
<b>Description of Condition</b>		
No withdrawal shall be made under Category (2)(a), unless and until: (i) the Project Implementing Entity shall have established and operationalized the EIS, including the adoption of the EIS Charter, all in a manner acceptable to the Association; (ii) the Recipient shall have entered into the Sub-loan Agreement with the Project Implementing Entity in a form and manner acceptable to the Association		
<b>Source Of Fund</b>	<b>Name</b>	<b>Type</b>
IDA	Second tranche capitalization	Disbursement
<b>Description of Condition</b>		
No withdrawal shall be made under Category 2(b), unless and until an aggregate amount of SDR 1,430,000 out of the SDR 2,145,000 disbursed under Category 2(a) shall have been committed by the Export Insurance Subsidiary to back up outstanding Export Credit Insurance.		
<b>Source Of Fund</b>	<b>Name</b>	<b>Type</b>
IDA	Third tranche capitalization	Disbursement
<b>Description of Condition</b>		
No withdrawal shall be made under Category 2(b), unless and until an aggregate amount of SDR 3,575,000 out of the SDR 4,290,000 disbursed under Categories 2 (a) and (b) shall have been committed by the Export Insurance Subsidiary to back up outstanding Export Credit Insurance.		
<b>Source Of Fund</b>	<b>Name</b>	<b>Type</b>
IDA	Matching Grants	Disbursement
<b>Description of Condition</b>		
No withdrawal shall be made under Category (4), unless and until the Recipient has adopted the Matching Grants Implementation Manual in form and substance satisfactory to the Association.		

<b>Team Composition</b>					
<b>Bank Staff</b>					
<b>Name</b>	<b>Role</b>	<b>Title</b>	<b>Specialization</b>	<b>Unit</b>	
Ulle Lohmus	Team Leader (ADM Responsible)	Senior Financial Sector Specialist	Team Lead	GFM02	
Gerelgua Tserendagva	Procurement Specialist (ADM Responsible)	Procurement Specialist	Procurement	GGO08	
Badamchimeg Dondog	Financial Management Specialist	Financial Management Analyst	Financial management	GGO20	
Ana Maria Aviles	Team Member	Sr Financial Economist	Economist, export development	GFM02	
Andres F. Garcia	Team Member	Senior Economist	Matching grants, export competitiveness	GTC02	
Feng Ji	Safeguards Specialist	Senior Environmental Specialist	Environmental Safeguards	GEN2A	
Giovanni Bo	Counsel	Counsel	Country Lawyer	LEGES	
Junxue Chu	Team Member	Division Manager	Lending, disbursement	WFALN	
Otgonbayar Yadmaa	Team Member	Program Assistant	Team Support	EACMF	
Radu Tatu	Team Member	Young Professional	Export finance, exporter training	GFM02	
Songling Yao	Safeguards Specialist	Senior Social Development Specialist	Social Safeguards	GSU02	
Ulziimaa Erdene	Team Member	Program Assistant	Team Support	EACMF	
Zhuo Yu	Team Member	Finance Officer	Lending, disbursement	WFALN	
<b>Locations</b>					
<b>Country</b>	<b>First Administrative Division</b>	<b>Location</b>	<b>Planned</b>	<b>Actual</b>	<b>Comments</b>
Mongolia	Ulaanbaatar	Ulaanbaatar	X		
<b>Consultants (Will be disclosed in the Monthly Operational Summary)</b>					
Consultants Required?      Consultants will be required					



## I. STRATEGIC CONTEXT

### A. Country Context

1. Mongolia has transformed over the past 25 years into a multi-party democracy and is gradually becoming a more modern economy, with economic activity driven by the mining sector. In 1990, Mongolia turned away from the Soviet-backed one-party state system and the centrally planned economy, and opted for its first free elections and a market-led economic system. In 1991, Mongolia joined the World Bank, the IMF, and the Asian Development Bank (ADB), and the first democratic constitution was approved in 1992. At the beginning of the economic reforms, the country favored mechanisms to support the basis of a market economy, including privatization, price and wage liberalization, currency reform, and integration with international trade.

2. The strategy of the Government of Mongolia (GOM) is to support sustainable economic growth by investing in infrastructure improvements (e.g., roads, railway, power, housing), guiding the development of mining through better regulations, promoting investments from domestic and foreign sources, and stimulating production of the agricultural sector and of SMEs. Recognizing the importance of a stable investment climate, the Parliament adopted a new Investment Law in September 2013. The new law provided improved investment climate by bringing greater clarity and stability, simplifying processes, and providing a level playing field for domestic and foreign investors. The Parliament recently adopted a new mining development policy and in July 2014, it adopted an amendment to the Mineral Law, which allowed for the lifting of the moratorium on mining licenses.

3. As a landlocked country of 1.6 million square kilometers of land, and population of about 3 million people, Mongolia's history has been influenced by its two giant neighbors, Russia and China. The country is rich in minerals, with important oil reserves and deposits of ores such as copper and gold, and has the lowest population density in the world: 1.9 people per square kilometer. Over 60 percent of the population lives in urban areas, approximately 40 percent in the capital city of Ulaanbaatar. The remaining rural population is scattered over wide distances, resulting in significant challenges in transportation, service delivery and communication.

4. With a GDP of US\$12 billion (2015), Mongolia has a narrowly diversified economy driven by mining, which accounts for 18 percent of GDP, and agriculture, which accounts for about 15 percent of GDP. There are primarily two large mining projects, the Oyu Tolgoi copper and gold mine and the Tavan Tolgoi coal mine. Strong foreign capital inflow for mining investment helped to ramp up economic activities in service, transportation and construction industries in recent years, and is now reflected in the growing dominance of mining exports as their annual share of total exports has been on average 90 percent in the last five years. The dominance of mining sector has made the Mongolian economy inherently subject to the commodity price swings.

5. The Mongolian countryside remains a herder-based economy and the majority of its land is dedicated for pasture of cattle, sheep, goats, camels and horses. Agriculture contributes to about 15 percent of the GDP and herding accounts for over 80 percent of agriculture with the livestock population reaching 55 million at the end of 2015. Animals provide sustenance, income, and wealth for nearly half of the residents of Mongolia. However, the agriculture sector has inherent

volatility, driven by livestock mortality. Hazards affecting the population of animals (“dzuds”, e.g. extremely cold winters) can have devastating implications for the rural poor and the overall economy. For example in 2010, 8.8 million livestock were lost to “dzud”, an equivalent of 4.4 percent of the country’s economic output. The GOM, supported by the World Bank, successfully developed and launched an innovative index-based mortality livestock insurance<sup>2</sup> that has helped herders to build their resilience against extreme weather events. In 2014, a state owned Agricultural Reinsurance Company (AgRe) was established to upgrade the development level of agricultural and financial sectors by delivering reinsurance services.

6. Over the last decade, per capita income grew four-fold thanks to the rapid economic growth driven by the mining sector and, as a result, Mongolia is now an upper-middle income country. According to the national statistics office, average unemployment in Mongolia was about 7.5 percent in 2015. Poverty has been on a declining trend over the past decade, and poverty rates declined from 39 percent in 2010 to 21.6 percent in 2014. However, about a tenth of the population are still highly vulnerable and small negative shocks can push them back below the poverty line. Under these circumstances, the GOM’s focus on economic diversification is indispensable as a way to create alternative sources of employment and increase the economic resilience to shocks.

**B. Sectoral and Institutional Context**

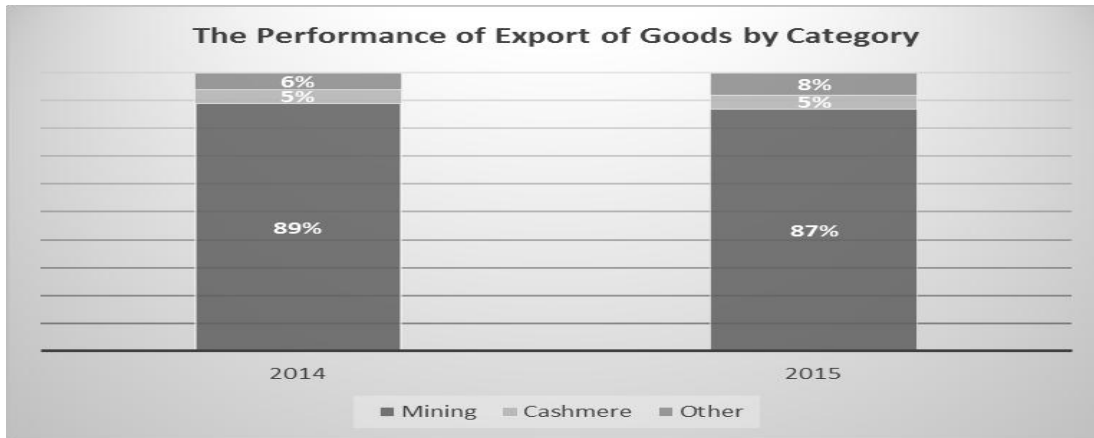
7. In 2015, Mongolia’s total exports were US\$4 billion, of which 87 percent consisted of mining commodities, while cashmere products represented 5 percent of total exports. In addition to the concentration of exports in mining products, Mongolia’s main export market is China, which absorbs about 95 percent of total Mongolian exports per year (Charts 1 and 2).

8. The current export structure indicates significant concentration risks in external trade from (i) heavy dependency on mining sector; and (ii) heavy dependency on China. This dual dependency makes Mongolia’s economy vulnerable to external shocks. It leads to the lack of pricing power (inability to change prices of its exports quickly in response to external circumstances) and the economy becomes susceptible to external shocks, such as a drop in global commodity prices as well as declining demand in China.

**Chart 1. The Performance of Export of Goods, % of total exports**

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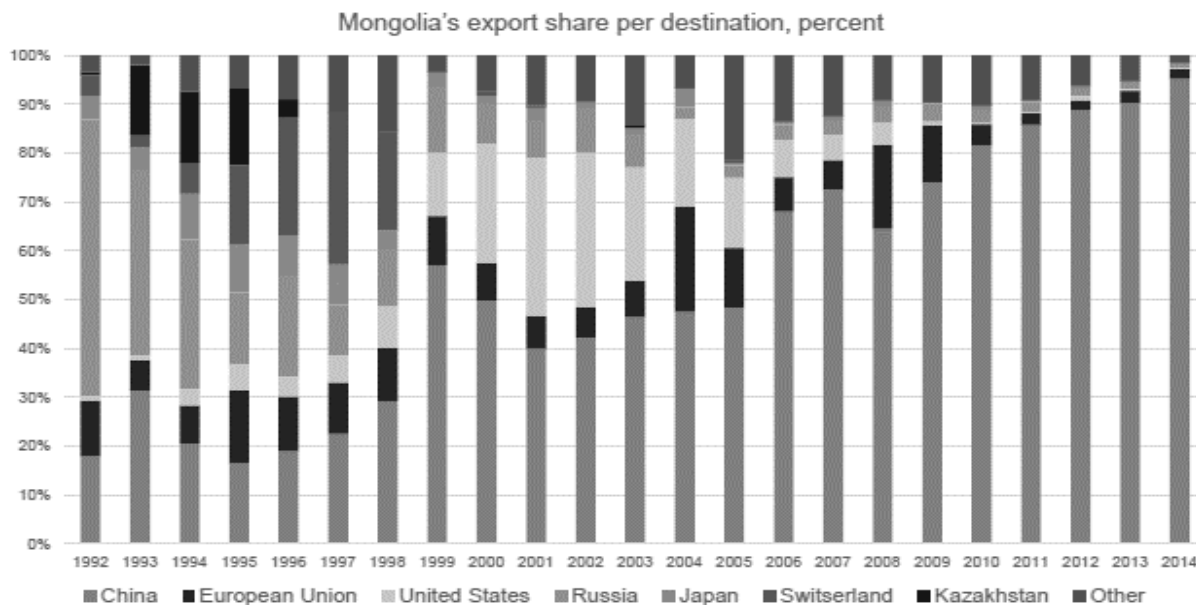
<sup>2</sup> The Mongolia Index-Based Livestock Insurance Project (P088816)



Source: National Statistical Office of Mongolia

9. In an economy where exports are heavily dominated by mining commodities, export diversification is expected to boost productivity, overall entrepreneurship and encourage new entrants to the market. Although the mining sector has a high labor productivity, it employs only 4 percent of the workforce; agriculture, on the other hand, employs close to 30 percent of the workforce but has a low productivity. Therefore, economic diversification to agricultural related products is expected to have an important impact in terms of employment and productivity in the country.

**Chart 2: Mongolia's export share per destination, %**



Source: Bert Hofman, Evolving Prospect for the Global Economy, China's New Normal and its Relevance to Mongolia, March 25, 2016

10. The main non-mining exports in Mongolia mostly comprise agricultural related products such as cashmere, combed goat hair, sheep wool, and leather, all of which - except for goat hair - have increased their export volumes over the past decade. Government targeted support to exporting SMEs in agricultural related products will directly contribute to growth and employment. Increase in productivity, paid wages, taxes, and foreign revenues will lead to new

investments and consumption in the country. These factors will directly and positively impact incomes of the lower strata of the population. A stronger SME sector can play a pivotal role in supporting a more inclusive economic development by reducing poverty and increasing shared prosperity in Mongolia.

11. In Mongolia, SMEs represent about 95 percent of total business entities, of which about half are in the wholesale, retail, and household goods sectors. SMEs employ roughly half of the country’s workforce and account for about 40 percent of GDP but contribute less than 2 percent to the state budget in taxes.<sup>3</sup> According to the Law on SMEs from 2007, the SMEs in Mongolia are defined by sectors as presented in Table 1. In general, various assessments of the SMEs sector point to similar challenges faced by SMEs in their struggle for development and long term sustainability (See Table 2), which include: access to finance, high taxes and high costs of doing business, poor market conditions, cumbersome procedures, and lack of capacity.

**Table 1: SMEs as defined in the Law on SMEs**

Category	Sector	Number of Employees	Annual Revenue in TUG
Medium	Manufacturing	≥ 199	≥ 1.5 billion
	Wholesale trade	≥ 149	≥ 1.5 billion
	Retail trade	≥ 199	≥ 1.5 billion
	Services	≥ 49	≥ 1.0 billion
Small	Trade / services	≥ 9	≥ 250 million
	Manufacturing	≥ 19	≥ 250 million

Source: [www.sme.gov.mn](http://www.sme.gov.mn)

12. Mongolia became a member of the WTO in 1997 and trade liberalization and integration with international trade has been one of the main focus of its economic policies since the early reforms of the 1990s. The Government of Mongolia considers trade liberalization important in improving the living standards of the population, and while working towards the successful implementation of the Doha Development Agenda, development of the export sector is facing a number of constraints:

- *Because Mongolia is a landlocked country*, it presents logistical issues for its export products (primarily heavy commodities) to reach final buyers. Roads and railway network is underdeveloped. Most export-bound products have to travel through Russia or, more commonly, through China to reach buyers in those countries or ports for onward journey. Therefore, Mongolia’s two neighbors have traditionally been its main trading partners;
- *Despite the fact that GOM has persistently promoted an export-led growth policy, raw and low value added products continue to dominate* most exports. The majority of mining sector exports (copper and iron ores) are exported without being processed;

<sup>3</sup> Togtokhbuyan Lkhagvasuren, Huo Xuexi; “Analysis of the returns of small and medium-sized enterprises in Mongolia”; Journal of Finance and Accounting, 2014.



- *Exporters and potential exporters have limited knowledge on and lack of access to export-specific financing.* Trade finance options are limited for non-mining export enterprises in Mongolia. Moreover, the available options are not fully utilized as there seems to be a lack of knowledge on the export financing products offered and their applicability. Mongolia’s largest banks have been offering financing tools for importers, mostly through the letters of credit and guarantees for post-shipment, but financing needs of exporters in the SMEs sector have been largely neglected. Therefore, exporters continue to restrict their activities to the traditional way of obtaining finance through commercial or personal loans.

13. Based on the SME Survey, conducted in September 2015 by the SME Policy Implementation and Coordination Department of the Ministry of Industry<sup>4</sup>, Mongolian SMEs lack the skills to engage in export activities and access to export financing remains one of their challenges. The commercial banks are also not willing to extend export credit to SMEs who are seen as a high-risk business.

**Table 2: Key constraints to SMEs for doing business**

A demand survey conducted by the IFC in 2014 identified the following as the main barriers for business development in the SME sector: <sup>5</sup>	An analysis of the SMEs survey identified the following as key challenges to the long term sustainability of SMEs: <sup>6</sup>
<ul style="list-style-type: none"> <li>➤ access to finance,</li> <li>➤ lack/insufficiency of collateral,</li> <li>➤ high costs of doing business,</li> <li>➤ high taxes,</li> <li>➤ high fees charged by banks,</li> <li>➤ inadequate government policies,</li> <li>➤ cumbersome procedures, and</li> <li>➤ lack of skilled force</li> <li>➤ lack of capacity at SMEs.</li> </ul>	<ul style="list-style-type: none"> <li>➤ access to finance,</li> <li>➤ lack of business plans,</li> <li>➤ high costs of doing business,</li> <li>➤ high taxes,</li> <li>➤ high rental charges,</li> <li>➤ low sales and low profitability,</li> <li>➤ poor market conditions,</li> <li>➤ wrong pricing,</li> <li>➤ labor market barriers, and</li> <li>➤ lack of business management skills.</li> </ul>

Source: Abovementioned Surveys

14. Export credit insurance can serve as an alternative tool to advance cash payment, letters of credit, documentary collection and others in securing export revenues. This provides a strategic tool for the exporter to sell in an open account. The competition in the export market, as also noted by SMEs in the September 2015 Survey, makes foreign buyers often request exporters to accept open account terms. Exporters who are reluctant to extend credit could lose sales to

<sup>4</sup> <http://sme.gov.mn/observatory-data>

<sup>5</sup> The International Finance Corporation (IFC), “SMEs and Women-owned SMEs in Mongolia, 2014.

<sup>6</sup> Togtokhbuyan (2014)

competitors who are willing to offer better payment terms. Credit insurance is therefore considered to be a critical component in a country's export-led growth strategy:

- With credit insurance cover, an exporter is able to protect the future cash flow of its business. Revenues are not lost to defaults by buyers as a result of bankruptcy or protracted default.
- An exporter can also leverage the superior database of a credit insurer to sell to buyers which are trustworthy.
- Also, credit insurance solution will enable an exporter to raise financing for working capital purposes. When export receivables are secured with a credit insurance cover, an exporter can leverage on this to discount invoices through a loss payee agreement with a bank at a competitive rate without providing collateral. This is useful especially for SMEs as they often lack the requisite collateral to access traditional bank facilities.

15. In recognizing these barriers and benefits, governments around the world have come out with different schemes (most commonly in a form of export credit agencies) to help exporters, especially SMEs, to have access to trade credit insurance services. This is usually done through collaboration among government, businesses, and financial sector partners.

16. Recognizing the vulnerability of the economy to the commodities cycle and the large external imbalance, Mongolian authorities understand the importance of strengthening their export performance by diversifying markets and products; by maximizing benefits from the mining sector but also stimulating non-mining sectors, thus supporting economic diversification and employment.

17. In this context, the GOM is trying to develop opportunities to increase exports of higher value added products through addressing various constraints:

- First, the Government provided around MNT270 billion of the proceeds from the first international sovereign bond issuance (the Chinggis bond<sup>7</sup>) to promote export-related industries including non-mining exports such as cashmere, textile and dairy products in 2013. A part of these proceeds was used for investments that indirectly supported all exports (e.g., investments in transport infrastructure and in import substitution endeavors such as cement and steel production for housing construction purposes). Also a portion of the Samurai bond<sup>8</sup> proceeds was used to promote industries for import substitution or export in 2014.
- Second, in September 2013 the Government adopted an Export Promotion Program (EPP) which calls for the expansion of Government-supported export finance and non-financial services to exporters, e.g., export credit, insurance, guarantees, foreign market research, compliance with technical standard requirements, and economic diplomacy and product promotion.

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<sup>7</sup> The first international sovereign bond issued by GOM in 2012, with a total amount of USD1.5 billion; with 5- and 10-year term.

<sup>8</sup> Bonds issued by the Development Bank of Mongolia under GOM guarantee, with a total amount of US\$290 mn.

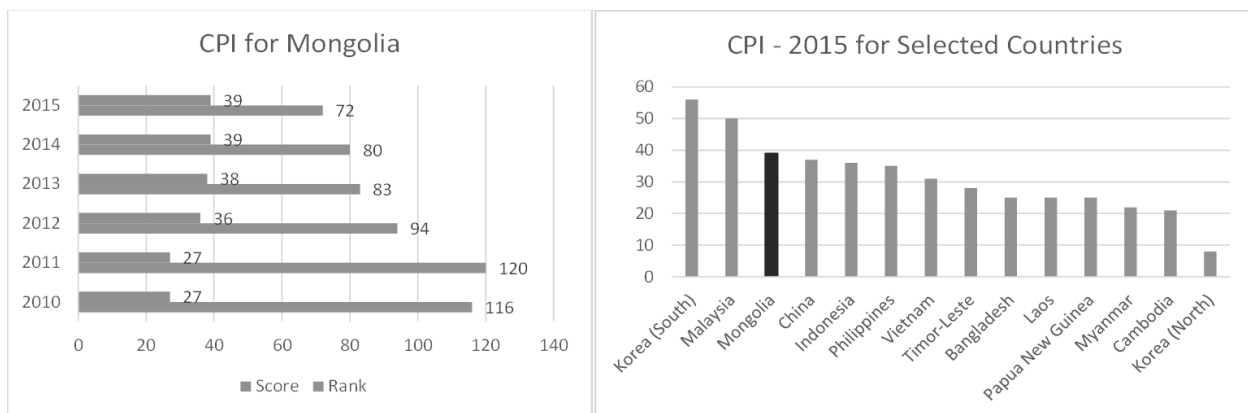
- Third, the Government is entering into bilateral free trade agreements. In February 2015, a free trade agreement was signed with Japan, which came into effect in spring 2016. The Government is looking to have a similar free trade agreement with Korea. This will open new doors for Mongolian exports to important and populous markets in the region.

18. This Project complements the groundwork that the Government has done in recent years to bolster SMEs development. In 2012, the GOM partnered with the EU and the EBRD and launched a five-year development program to support the SME sector. The goal of this program was to: (i) enhance the institutional framework for SME development, and (ii) facilitate businesses access to external advice in order to improve their competitiveness. In 2015, the Parliament endorsed a series of reforms to foster domestic production of export-oriented competitive goods. These reforms included the: (i) law on Free Trade Zone; (ii) law on Promotion of Industrial Manufacturing; (iii) law on Corporate Income Tax; and (iv) law on Promotion of Economic Transparency. Moreover, the GOM is currently designing an SME development program until 2020, focusing on (i) improving the SME regulatory framework; (ii) fostering innovation; (iii) facilitating access to finance; and (iv) promoting access to markets. In this context, the Project is complementary to a series of GOM efforts to expand and diversify the export sectors.

### Institutional Framework

19. Strengthening its institutional framework is one of Mongolia’s key challenges in order to support growth as well as business development and economic diversification. Improvements achieved over the past decade underpinned an increasingly open trade regime and some progress in the regulatory framework. However, there are challenges regarding political interference, property rights and regulatory efficiency. Mongolia is ranked 72 out of 168 countries by Transparency International’s 2015 Corruption Perception Index; and 100 out of 178 countries by the Heritage Foundation’s 2016 Index of Economic Freedom.<sup>9</sup>

**Chart 3: Transparency International’s Corruption Perception Index**



Source: Transparency International

<sup>9</sup> The Heritage Foundation, Economic Freedom Score, 2016.

20. Mongolia is ranked 56 out of 189 countries in the 2016 Ease of Doing Business, and the ranking reflects recent improvements in two areas: (i) starting a business and (ii) getting credit.<sup>10</sup> According to the latest Doing Business report, over the past year Mongolia streamlined the process of starting a business by reducing the days required to register a new company, and improved access to credit information as the credit registry started distributing credit data from retailers and utility companies. However, the report also identifies weaknesses, particularly in the areas of access to electricity, paying taxes, resolving insolvency, enforcing contracts, and trading across borders. The trading across borders indicators show significant improvements in the time and cost associated with the logistical process of exporting and importing goods in recent years, although the time spent on documentary compliance and the cost of domestic transport are reported as the two main sources of logistical distress for importers and exporters.

### **C. Higher Level Objectives to which the Project Contributes**

21. The proposed Project will support the GOM in achieving a more diversified export base through the provision of enhanced public sector support to the building of non-mining export sector. Export growth will be a key driver of overall economic growth, stability and poverty reduction. The Project will support easier and broader access for SMEs to export finance, know-how, data, and competitiveness enhancement tools.

22. The proposed Project is fully aligned with the FY13-17 Country Partnership Strategy for Mongolia (CPS Report No. 67567-MN). Under the second pillar of the CPS, the WBG will support the GOM's efforts to diversify the economy and generate employment by (i) enhancing its overall competitiveness and (ii) strengthening the competitiveness of the agricultural sector. The agricultural sector with all its products and value-added derivatives, from meat and dairy to skins and cashmere, and employing 40 percent of Mongolia's workforce, will benefit the most from the Project. Also the export credit insurance products will benefit the SMEs in the non-mining sectors.

## **II. PROJECT DEVELOPMENT OBJECTIVES**

### **A. PDO**

25. The development objective of the Project is to support Mongolian small and medium size firms (SMEs<sup>11</sup>) in the non-mining sectors to strengthen their export capabilities and expand access to export markets.

### **B. Project Beneficiaries**

26. The primary beneficiaries of the Project will include existing or future exporting SMEs in the non-mining sectors. Beneficiaries will also include the AgRe and its to-be-established subsidiary, and private insurance companies and other financial institutions which will develop

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<sup>10</sup> The World Bank Group, Doing Business – Measuring Regulatory Quality and Efficiency, 2016.

<sup>11</sup> As defined in the Mongolia SME Law. Firms = Enterprises.

capacity to provide export credit insurance products to the Mongolian SMEs. The public sector and non-government organizations (NGOs) will also benefit as they improve their capacity in providing export support and promotion services to SMEs.

### C. PDO Level Results Indicators

27. Key PDO indicators are detailed in Annex 1, and summarized in Table 4.

**Table 3. Project Outcome Indicators**

PDO level results Indicators		Baseline ( 2016)	Target value
Export volume	Increase in export volume (by price) by the Project beneficiaries (average)	0	15%
Enhancement of exporting potential	Number of SMEs that obtain internationally-recognized quality certification following support from the Matching Grant Facility (cumulative, disaggregated by the number of firms owned by women)	0	15
New exporting firms	Number of SMEs that start exporting following participation in project activities (e.g., Training and/or Matching Grant for quality certification and/or export insurance; cumulative, disaggregated by the number of firms owned by women)	0	15
Export credit insurance products	Number of export credit insurance products introduced in Mongolia (minimum)	0	2

### III. PROJECT DESCRIPTION

28. The EDP design is largely based on the EPP adopted by the GOM in September 2013. The EDP supports key components of the EPP, serving as the public sector instruments for supporting Mongolian exports. Export development depends on a number of critical success factors: (i) strong and stable macroeconomic environment; (ii) availability of supportive public policies and instruments; (iii), joint efforts of the private and public sector in promoting and marketing national exports in target markets; (iv) good transport/logistical infrastructure; (v) favorable business environment including export-friendly customs and border procedures; (vi) availability of dedicated financial products and services to exporters; and (vii) a level of quality of exported goods commensurate with the requirements of global markets. Neither the EPP nor the EDP will cover all these factors, many of which are addressed through the other GOM initiatives. The Project is largely focused on the last two from this list.

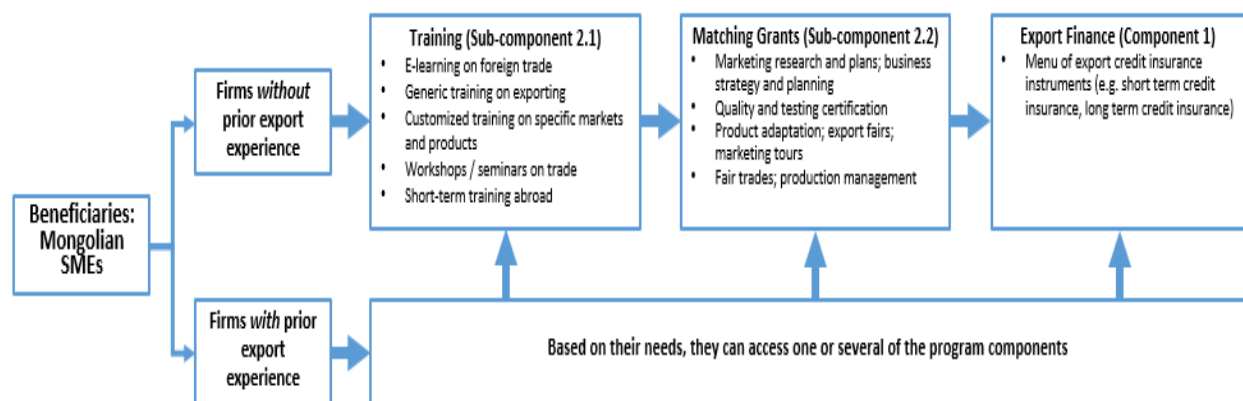
29. To achieve the PDO, the Project will provide a range of support services to the Mongolian SMEs in the non-mining sectors that are already exporting or are planning export activities. Such support services include: (i) basic training on foreign trade, and customized training on exporting specific type of goods, or exporting to specific markets; (ii) matching grants to cover part of the SME's expenses towards raising their international competitiveness; and (ii) access to export credit insurance products, to be provided by the Export Insurance Subsidiary (EIS) of the AgRe.

30. AgRe was established on August 28, 2014 by the Government resolution No.280 within the framework of the Index-Based Livestock Insurance Law<sup>12</sup> and its role is to ensure continuity of the provision of the Index-Based Livestock Insurance (IBLI) in Mongolia that was developed and implemented under the Index-Based Livestock Insurance Project (IBLIP, P088816), supported by the World Bank since 2005. Thus, AgRe is well suited to implement the export finance component of the Project, given it has onboard a team of insurance and agricultural sector specialists who also have an experience with the World Bank projects.

31. AgRe was established as a closed Joint Stock Company and is 100 percent state-owned with the ownership right exercised by the Ministry of Finance (MOF). Its highest governing body is the Shareholders’ Board, succeeded by the Management Board, consisting of 12 members. AgRe’s ultimate goal is to reduce overall risk in agricultural sector, support businesses, and help to take insurance industry to the next level. At the end of 2015, its operating capital was MNT15 billion. Currently AgRe has four departments – Department of Reinsurance, Department of Business Development and Projects, Department of Asset Management, Indemnity and Department of Finance and Administration. In 2015, 10,317 herders with 2.7 million livestock were insured, with a total premium of MNT 1.301 billion, and a total liability of MNT 27.7 billion. The company shares the reinsurance risk with international insurance companies, such as Canopius, Scor, and QatarRe. AgRe will set up a dedicated team of insurance/finance specialists to obtain knowledge on trade finance instruments and develop the export credit insurance line of business.

32. Chart 4 provides a summary of support services which will be made available through the Project to the Mongolian SMEs.

**Chart 4: Summary of the Support Services to the Mongolian SMEs.**



Note: Generic training will be made available to all companies who are engaged or interested in exporting, including through disclosure of all training materials on the Project’s website.

<sup>12</sup> Approved by the Government on June 13, 2014

## A. Project Components

34. The Project is structured along two broad areas: (a) Developing export credit insurance line of business by strengthening capacity of the AgRe, and Mongolian insurance companies and other financial institutions to provide such products and services; and (b) strengthening Mongolian export competitiveness by providing training and research on exporting to SMEs and by supporting SMEs with matching grants in implementing their export development plans. Project management capability will also be further strengthened. Annex 2 provides a detailed description of the Project and its components, while Annex 3 provides details of implementation arrangements.

35. ***Component 1: Development of a new line of export finance products (US\$10.74 million including US\$10.0 million of IDA and US\$0.74 million government contribution).*** This component will provide financial, technical, and institutional development support to the Agricultural Reinsurance Joint Stock Company (AgRe) in building a new line of export finance products. It will enable AgRe to obtain knowledge on trade finance instruments and develop export credit insurance products and its to-be-established Export Insurance Subsidiary (EIS) to start providing to export credit insurance to the Mongolian SMEs in the non-mining sectors. As an additional outcome from this component, the EIS will become a center of excellence on export credit insurance and will provide training and consulting services to insurance companies, financial institutions and exporting companies. This component will have two parts:

a) ***Sub-component 1.1: Knowledge transfer and capacity building for the Agricultural Reinsurance Joint Stock Company (AgRe) (US\$1.0 million).*** This sub-component will finance staff of AgRe working on export finance instruments to go on short term (1- 6 months) fact-finding and study visits to solid foreign partner/s (to be determined jointly by AgRe and the World Bank) for on-site learning related to export credit insurance and other trade finance development. The sub-component will also allow partner institutions management and staff to visit AgRe for knowledge sharing sessions and bring in a resident advisor, if needed. It will allow AgRe to draw on the expertise and experience of consultants and relevant partners in developing export credit insurance products for Mongolian SMEs engaged in export activities and learn about other trade finance products. Once AgRe has developed the export credit insurance product line, it will obtain a license and establish its Export Insurance Subsidiary that will start providing export credit insurance products in Mongolia. The knowledge obtained under this sub-component will be transferred to the new Subsidiary.

b) ***Sub-component 1.2: Equity injection to AgRe's Export Insurance Subsidiary (US\$9.74 million, including US\$9.0 million of IDA and US\$0.74 million government contribution)*** will back up export credit insurance policies issued to Mongolian exporters. Equity injections to the EIS will be made gradually over time, in three tranches of US\$3 million each, at the request of the Government. The first equity tranche will be made available only after the Association has conducted its legal due diligence and considers the EIS established in accordance with the best international practices, including its governance structure. The equity for the EIS will be provided to the AGRE as a sub-loan from the Government under a respective legal agreement and on the terms acceptable to IDA. This

sub-loan will be provided as an equity from AgRe to the EIS and will be used only for issuing export credit insurance products. After receiving the first US\$3 million capital injection, the EIS will start conducting annual actuarial reviews of its capital requirements (related to the export insurance business). The second tranche of capital will be disbursed once the capital requirements for the export business are greater than US\$2 million. The third tranche of capital will be disbursed once the capital requirements as per the annual actuarial review are greater than US\$5 million. The EIS will develop a financial management system acceptable to IDA and will prepare and submit its quarterly and audited annual financial statements to IDA. All financial statements will be disclosed. The GOM and IDA will decide, based on the EIS performance and oversight arrangements, no later than four months before the Project closing date whether the remaining balance of the capital contribution will stay in EIS or will be returned to the Government to be used for the export development purposes as agreed between the GOM and IDA. In the absence of an agreement, it will be refunded to IDA. In case the equity will stay in EIS, it can be used only for the intended purposes; i.e. to back up export credit insurance policies.

#### **Box 1: Export Credit Insurance**

Exporters who sell their products on credit terms, use export credit insurance mechanisms to protect themselves against losses arising from risks of commercial and political nature.

- ✓ Potential commercial risks include: i) insolvency of the purchaser, ii) payment default by the purchaser, and iii) rejection of delivered goods that have complied with the agreed terms.
- ✓ Political risks, on the other hand, are wider in nature as they consists of impact from political events which could potentially impact any aspect of the contractual relationship, such as: i) cancelation of export license, ii) war and civil disturbances, iii) foreign currency conversion risks, iv) transfer risks, and v) trade restrictions.

The financial security provided by credit insurance mechanisms allows exporters to explore buyers

36. ***Component 2: Export competitiveness enhancement (US\$8.5 million)***. This component will provide funding for (i) export-related training programs and (ii) matching grants which would support various expenditures by exporters directed at enhancing competitiveness of individual SMEs in global markets. This component will have 2 sub-components:

- a) ***Sub-component 2.1: Training and research on foreign trade (US\$2.5 million)*** will augment existing public and private sector-provided training programs to Mongolian SMEs interested in starting or increasing exports. It will systematize such training, expand its modules, sectoral depth, geographical coverage, virtual outreach, and will train individual exporters, trainers, and Mongolian diplomatic corps responsible for economic representation of Mongolia abroad. The sub-component will also finance export-related sectoral analyses and other research which would benefit specific export-oriented SMEs. The lessons learned in training from IBLI will be incorporated in the training programs, including on the one-on-one training, training of trainers programs, capacity building and the aimag level project implementation.



*b) Sub-component 2.2: Matching grants to promote export competitiveness (US\$6.0 million).* This component will provide matching grants for Mongolian SMEs to enhance their export competitiveness. Costs eligible for financing under the sub-component would include tailored consulting services and associated travel expenses of Mongolian exporters, and acquisition of ISO and other internationally recognized quality certificates, for example.

37. *Component 3: Project Implementation Support (US\$1.54 million, including US\$1.5 million of IDA and US\$40,000 of government contribution).* The existing Project Implementation Unit (established in September 2004) responsible for Multi-Sectoral Technical Assistance Project (MSTAP) will provide its services for all three components of the Project. This is an experienced Project Implementation Unit (PIU) that will ensure compliance with the WB procurement, disbursement, and financial management policies and procedures. This unit will be responsible for: (i) Procurement, including all contracting for purchases and the hiring of consultants; (ii) Project monitoring, reporting, and evaluation; (iii) Contractual relationship with IDA; and (iv) Financial record keeping, financial management reports, the Designated Accounts, and disbursements.

## **B. Project Financing**

38. The lending instrument is Investment Project Financing (IPF). The loan will be in the amount of SDR 14.3 million (US\$ 20 million equivalent) on IDA blend terms with a final maturity of 25 years including a grace period of 5 years.

## **C. Project Cost and Financing**

39. Table 4 summarizes the Project Costs and Proposed Financing Arrangement. The GOM and the AgRe will make contribution of US\$ 780,000 for the paid in capital injection to the EIS, required for the company registration, office space, staff time, and other support over the Project implementation period.

**Table 4: Project Costs and Proposed Financing Arrangements (US\$ equivalent)**

<b>Project Components</b>	<b>Project Cost (US\$ million)</b>	<b>IDA Financing (US\$ million)</b>	<b>% Financing</b>	<b>GOM Financing (US\$ million)</b>	<b>% Financing</b>
1. Developing export finance products and services	10.74	10.00	100	0.74	100
2. Increasing competitiveness of exporters through training and matching grants	8.50	8.50	100		
3. Project Management	1.54	1.50	100	0.04	100
<b>Total Base cost</b>	<b>20.78</b>	<b>20.00</b>	<b>100</b>	<b>0.78</b>	<b>100</b>

Contingencies		0	100		
Total Project Costs		20.00	100		
<b>Total Financing Required</b>	20.78	20.00	100	0.78	100

#### **D. Lessons Learned and Reflected in the Project Design**

40. The project draws on lessons learned from previous and ongoing World Bank financed projects in the area of export development. Global experience and expertise in export-related project implementation, including working with EXIM banks, credit lines, strengthening entrepreneur support network, and providing matching grants indicates that project success is primarily contingent on a strong country ownership and a sustained commitment to implementation. The Project design has been guided by the GOM's Export Promotion Program and is fully owned by the Government.

41. The most significant lessons learnt from activities undertaken to support countries on export development programs were incorporated into the design of this Project:

- a. *Keep the project simple, components actionable and implementable, in particular where institutional capacity is being built up.* The Project will have two main components with clearly identified sub-components and a straightforward implementation structure.
- b. *Senior level leadership and strong program management.* Professional capability and dedication of the AgRe team for the implementation of Component 1 in close collaboration with the PIU; and experienced PIU management team, currently responsible for MSTAP, will be one of the core success factors of the Project.
- c. *Partnering with international peer organizations.* The proposed project aims to promote collaboration of the AgRe, and later the EIS, with other, more experienced export credit insurance companies and export credit agencies. Drawing on experience of the international peers, AgRe stands to accelerate institutional development and capacity needed to set up the new lineup of export finance products. In addition, partnerships through twinning programs would expand international networks for the AgRe.
- d. *Flexibility of the Project design.* Flexibility is important to be maintained in case priorities change during the Project implementation.
- e. *Broad availability of the Project's benefits to different sectors of the economy.* Given the relatively small size of the proposed IDA credit, the EDP has been deliberately structured to focus on components for export development with a broadest possible reach and impact. Follow up lending and TA activities by the World Bank and other development partners would provide further impact and value added by narrowing down on specific industries, logistics/transportation infrastructure, and other important aspects of the country's export development.

## IV. IMPLEMENTATION

### A. Institutional and Implementation Arrangements

42. The MOF will be responsible for the implementation of the Project, including overall coordination, results monitoring and communicating with the World Bank on all fiduciary aspects. A Project Steering Committee (PSC) will be established at the MOF for the Project oversight. The MOF, via PIU, will implement sub-components 1.1 on training and product line development, with the assistance of AgRe, and components 2 and 3 of the Project as the primary entity. AgRe will be the primary implementing agency for sub-component 1.1 with respect to the establishment of EIS and for sub-component 1.2 on operation of the facility (the EIS) and will assist MOF in the implementation of sub-component 1.1. AgRe will establish a new Export Insurance Department with 10 people for the sub-component 1.1 purposes. This Department will later become part of the EIS.

43. The PSC of the Project will be led by the representative of the MOF and will include representatives from the MOF, AgRe, Ministry of Food and Agriculture; and from the private sector, including e.g. the Mongolian National Chamber of Commerce and Industry (MNCCI), Mongolian Insurers' Association and Mongolian Business Council. The PSC will be responsible, among others, for: (i) providing overall policy guidance; (ii) reviewing Project reports; and (iii) ensuring synergies among the Project and other public and private sector initiatives on export development. The PSC will hold meetings at least annually, and a PSC meeting (actual or virtual) can be called at any time when required. The Head of the PSC will be appointed in accordance with the laws and regulations of Mongolia, and with terms of reference satisfactory to IDA. The Head of the PSC will also be responsible for: (i) overseeing the work of the PIU in accordance with the strategic direction provided by the PSC; and (ii) calling actual or virtual meetings of the PSC. The Head of the PSC will be supported by the PIU, led by a Project Coordinator. Regular project implementing issues will be delegated to the PIU Coordinator, including the submission of requests for the Association's no-objection.

44. The PIU - currently implementing MSTAP - will be responsible for project implementation, including overall project management, financial management, monitoring, evaluation, and reporting. The PIU will report to the MOF and the PSC. The PIU will hire additional staff under TORs satisfactory to the Association, to accommodate all the responsibilities under the Project. The PIU shall include: a Project Coordinator; a financial management specialist, a procurement specialist, M&E specialist and other support staff (IT specialist, Financial Management assistant), and additional 4-5 people to lead implementation of Component 2 of the Project. The Project's Organizational Chart is shown in Annex 6.

45. As needed, specific technical working groups will be established by the PIU and MOF, with membership drawn from export development stakeholders such as respective ministries, the AgRe, beneficiary firms, private sector chambers and associations, agencies and consultants. These technical working groups will be given specific tasks related to the development of TORs/technical specifications or elicitation and verification of user requirements related to the development of exporter training and research modules. Also, given that a significant part of the Project is knowledge transfer and capacity building, the PIU will ensure that various stakeholders,

such as public agencies, beneficiaries, sector associations, and NGOs can record and catalogue their learning and share it during the implementation process.

46. The AgRe will be the primary implementation agency for Component 1 of the Project, in strong collaboration with the PIU. The EID of AgRe will be responsible for developing export credit insurance products and its Head will also serve as this component's coordinator. The EID will perform legal and market analysis and assessment in these areas; arrange for staff to acquire relevant knowledge/expertise from appropriate foreign partners; and oversee enactment of the required internal policies, regulations, and action plans for development of the new products. AgRe will also be responsible for establishing and operationalizing EIS in accordance with the best international practices, including the governance structure. EIS will issue new export insurance products.

47. The Matching Grants sub-component 2.2 will be implemented through a Matching Grant Facility (MGF), established within the PIU. The MGF will be staffed by individuals from private sector, to conduct independent technical reviews of the matching grants proposals. The MGF will be led by a MGF coordinator. The MGF will be directed by a Matching Grants Implementation Manual (MGIM).

48. The MGF and AgRe coordinators will be responsible for: (i) preparing terms of references for assignments, etc; (ii) effective intra-agency coordination; (iii) establishing and monitoring evaluation committees to select consultants/firms; (iv) ensuring component objectives are achieved; and (v) reporting implementation progress to the PIU, MOF and PSC, as needed.

49. The MOF and AgRe through the PIU and the EIS, respectively, will be responsible for implementing the Environment and Social Management Framework (ESMF). The MOF and AgRe will invest in arrangements with local environmental and social experts either through training of their own staff or engaging consultants in order to successfully implement the ESMF. There could also be safeguard transaction costs for exporters to comply.

## **B. Results Monitoring and Evaluation**

50. The M&E of the EDP will be embedded in the various components of the project. Overall responsibility for project monitoring, evaluation, and reporting rests with the PIU. Day-to-day duties will be carried out by an M&E specialist at the PIU who will also work closely with the AgRe and MGF coordinators and the Training sub-component's coordinator. The staff of the PIU, AgRe and MOF will be trained on the project M&E program as needed.

51. The PIU will be responsible for developing an evaluation framework for the entire Project, and will design procurement, financial management, progress reporting formats and reporting frequency, collect, consolidate and disseminate lessons learned with relevant stakeholders, and ensure stakeholder feedback is captured in project implementation and in the development of the results framework. The PIU will present comprehensive progress reports showing progress towards achieving the Project's development objectives and outcomes to IDA on a semi-annually basis within 45 calendar days and to the PSC on annual basis. The semi-annual progress reports will be linked to the submission of financial and procurement reports. The

midterm review of the project shall be conducted no later than September 30, 2018 (or such other date as the Association may agree). The MOF may contract a third-party to conduct an independent analysis of the Project's progress towards achieving the outcomes.

52. Implementation progress and performance will be assessed based on the indicators identified in the Results Framework and Monitoring (Annex 1) and will be supplemented by detailed Procurement Management Reports and Financial Management Reports in a format agreed upon with the Association. Baseline studies, surveys and impact assessments will be carried out for project activities.

53. The PIU M&E specialist will coordinate all project evaluation activities. The PIU will perform its own assessment at various stages of the Project implementation, and will consolidate findings in the Annual Report. A comprehensive completion report will be prepared by the PIU at the Project completion. The PIU will also organize periodic workshops inviting key project stakeholders to discuss and consolidate their views and findings for the preparation of the Annual Reports and the final completion report.

### **C. Sustainability**

54. The GOM has demonstrated commitment to promoting export diversification in Mongolia, from the current low base for non-mining exports in particular (see sectoral context). It intends to do so with direct financing, by adopting better policies (incl. trade agreements), establishing export promotion institutions and developing financial instruments.

55. A significant part of the Project will be dedicated to knowledge transfer and building new exporting capabilities. For example, sub-component 1.1 will equip the AgRe and then EIS with new knowledge and skills for the development and deployment of export-focused financial instruments. The AgRe and EIS will share this knowledge with the Mongolian insurance companies and other financial institutions so that the later can better service their exporting clients. Sub-component 2.1 will produce various training modules and research which will be made accessible online and/or can be shared with more beneficiaries than just the initial recipients of such modules and research. All that indicates the staying power of the new knowledge and skills which will be generated through the support of the EDP.

56. Various private sector and NGO initiatives are already in place to support Mongolian exporters. Banks can offer trade finance instruments; and while most of them target importers, some of them benefit exporters as well. The MNCCI offers basic training on foreign trade through their Foreign Trade Academy – a training program which has been in place for years. NGOs such as the Quality Supplier Development Center provide fee-based services to individual companies for the development of their export capacity. The EDP will leverage these and other investments and efforts, to ensure that stronger export capacity is built and used effectively to create new jobs, improve lives, and make Mongolia competitively placed to participate in the global trade and economy.

## V. KEY RISKS

### A. Overall Risk Rating and Explanation of Key Risks

57. Key risks have been identified and rated in the Systematic Operations Risk-Rating Tool, presented in the Project data sheet. The overall risk of the Project is rated Substantial, because of high political and governance, and macroeconomic risks; and substantial technical design risk. Mitigation measures have been identified to address those risks.

58. The high political and governance risks arise from the upcoming elections in end-June, 2016, weak institutional framework and capacity in the Mongolian public sector, and high level of political interference and the associated turnover of key staff. The Bank team will be working very closely with the MOF and AgRe, providing enhanced Project implementation support, focusing on capacity building and ensuring that governance structures in AgRe and EIS meet the best practices and international standards. The PIU has a competent staff that has already implemented a number of World Bank financed projects. Also the PSC will be established and led by the MOF representative to provide leadership on the Project and be the key counterpart for the World Bank.

59. The high macroeconomic risks are related to the unstable global economy and growth potentials of China, the key trading partner. The external threats are there to stay. There are trade, investment and financial channels which carry their own unique risks to the narrow-based Mongolian economy. The Authorities are well aware of the risks and among other things are working towards economic diversification, including through the implementation of this Project. The World Bank, together with the other development partners, also provides continuous advice to the Authorities and monitoring of macroeconomic developments, thus assisting with mitigation efforts.

60. The substantial technical design risk is due to the innovative nature of the Project. The Project is largely based on the EPP, which is the first of its kind and untested in the market. The initial consultations with selected exporters and related associations indicate a good match between the Project's components and exporters' needs. However, the actual implementation presents uncertainties about the demand for the Project's offerings. A very close collaboration between the MOF, AgRe and the World Bank teams in the initial stages of the Project, to help increase awareness for the new instrument for Mongolian SMEs, will mitigate, to some extent this risk. Also, flexibility in the Project design will help adapt to the demand of SME exporters.

## I. APPRAISAL SUMMARY

### A. Economic and Financial Analyses

61. The link between productivity and exports is widely explored in the trade literature, which suggests that a potential positive element to consider as part of this Project is higher productivity in the Mongolian economy. Some of the evidence presented in the literature shows that greater openness, and increased focus of firms toward exports, is associated with productivity growth in the manufacturing sector, particularly in economies with lower degree of development

in the business sector.<sup>13</sup> At the same time, the impact of export promotion projects on productivity seems to be greater on SMEs than on larger and more developed firms that could be closer competitors to large international firms.

62. The Project's main impact will derive from the export diversification achieved, both in terms of products and markets. As the Project is expected to strengthen export capabilities and expand access to markets of existing and future exporting SMEs, the project components are not activities with defined measurable results per se, but instead they facilitate the firms' own export activities. In this context, most of the expected benefits will be generated by the current and potential independent exporting SMEs and, therefore, the extent to which the impact can be attributed to the actions derived from the specific components of the project is difficult to determine.<sup>14</sup>

63. Countries around the world have implemented export promotion programs, with some encouraging results. However, the impact of export promotion activities on exports depends on the type of activity, type and size of recipient firm, and type of destination countries. The impacts of such programs are summarized in Annex 5.

## **B. Technical**

N/A

## **C. Financial Management**

64. The MOF will be responsible for the overall project oversight and coordination and a PSC will be established by the MOF. Existing PIU responsible for MSTAP will carry out implementation of the Project in strong collaboration with AgRe. The MOF, via PIU, will implement sub-components 1.1 on training and product line development, with the assistance of AgRe, and components 2 and 3 of the Project as the primary entity. AgRe will be the primary implementing agency for sub-component 1.1 with respect to the establishment of EIS and for sub-component 1.2 on operation of the EIS and will assist MOF in the implementation of sub-component 1.1.

65. The Bank's FM assessment does not cover capacity assessment of the AgRe because no withdrawals will be made for payments under Sub-component 1.2 of the Project until all relevant arrangements have been set up by the AgRe, in a manner acceptable to the Association, towards launching export credit insurance products and services. Therefore, the financial management capacity assessment has been conducted by the Bank only for the PIU at MOF at this time and actions to strengthen its project financial management capacity have been identified. This assessment will be updated, as deemed necessary, once the financial management arrangements

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<sup>13</sup> Mary Hallward-Driemeier, Giuseppe Iarossi and Kenneth L. Sokoloff; "Exports and Manufacturing Productivity in East Asia: A comparative analysis with firm-level data"; NBER working paper, 2002.

<sup>14</sup> "While most researchers and providers of export promotion programs agree on the need to measure the impact of export promotion, there is no consensus on how this should be done". June Francis, Colleen Collins-Dodd, (2004), "Impact of export promotion programs on firm competencies, strategies and performance: The case of Canadian high-technology SMEs", *International Marketing Review*, Vol. 21 Iss: 4 pp. 474-495.

for sub-component 1.2 at AgRe are made clear. The FM assessment has concluded that with implementation of the actions identified for the PIU, the financial management arrangements will satisfy the Bank's minimum requirements under OP/BP 10.00. Annex 3 of the PAD provides additional information on financial management.

66. The AgRe and EIS will prepare and share with the Association its financial statements, audited by an internationally recognized company by no later than 6 months after the end of the reporting period. The Association will also reserve the right to request the EIS, after the closing date of the Project, to make the annual audited financial statements publically available and furnish them to the Association and perform a special performance audit. The costs of such audits will be covered by the EIS.

#### **D. Procurement**

67. The amendments to the Public Procurement Law of Mongolia (PPLM) that became effective from October 2012 shifted the responsibility for processing public procurement of national and regional importance from the line ministries to the newly established professional procurement agency, the Government Procurement Agency (GPA). Each year, after approval of the state budget, Cabinet establishes a list of projects and contracts of national and regional importance for which the GPA will be responsible for procurement. The line ministries and the local governments are responsible for the procurement of goods, works and services which are not included in the Cabinet's list.

68. The MOF via PIU and AgRe will be responsible for Project implementation. Considering the nature of this project, in that around 80 percent of the Project resources will go directly to: (i) AgRe for capitalization of EIS and (ii) MGF for exporters, it has been agreed that the MOF will have an overall responsibility for procurement under the Project. Procurement under the matching grant component will be handled by the beneficiaries using simplified procurement methods described in the MGIM.

69. The procurement capacity assessment does not cover assessment of the AgRe but was conducted only for the MOF and MSTAP PIU. They are both experienced in implementing the Bank financed projects and familiar with the World Bank procurement procedure.

70. The AgRe will provide technical inputs to the PIU at MOF for technical specifications and terms of reference, participate in evaluating bids and proposals for their activities, and assist in contract management, supervising suppliers and consultants.

71. The key risks for the project procurement are: (i) possible change of the MSTAP PIU experienced staff; (ii) inexperience of the MOF, AgRe and other relevant ministries new officials in implementing the WB financed projects and their unfamiliarity with the procurement procedure; (iii) inadequate planning and scheduling to ensure that the project activities can commence and be completed as planned; (iv) inadequate public procurement oversight mechanism; (v) possible elite capture and political interference in procurement. The procurement capacity and risk assessment rates the project overall procurement risk as Moderate.



72. In order to mitigate these risks the following actions were discussed and agreed with the MOF: (i) A user friendly procurement manual that describes accountability and responsibility of all parties and all steps of the procurement process is developed; (ii) Agree on a training program (internal/ external) for MOF and other agencies to be implemented over the life of the project that is both relevant and practical ; (iii) Involve technical staff and users in preparation of specifications or agree to hire competent consultants to draft Technical Specifications (TS/TORs).

73. The PIU has prepared a procurement plan to be carried out by the MOF during the first 18 months of project implementation in cooperation with the AgRe. The procurement plan will be updated annually or as required to reflect implementation needs and improvements in institutional capacity. The plan and its updates will be disclosed to the public. See Annex 3 for further details on procurement.

#### **E. Social**

74. The proposed Project will benefit existing and future exporters in Mongolia who will receive services in the areas of export credit insurance, data, practical knowledge, and financial support towards export quality and competitiveness improvements. Beneficiaries will include SMEs in the non-mining sectors, AgRe, private insurance companies and other financial institutions which will develop capacity to provide specific export-oriented financial products and services to the Mongolian SMEs. The public sector and NGOs will also benefit as they improve their capacity in providing export support and promotion to the entrepreneurs.

75. Since the benefiting SMEs may operate in locations with a presence of ethnic minorities as defined by the Bank's policy OP 4.10 Indigenous Peoples, this policy is triggered. An Ethnic Minorities Development Framework (EMDF) has been prepared and included in the ESMF. The EMDF will guide the preparation of Ethnic Minorities Plans (EMP) in the event that any exporting SME supported by the Project is established or operating in locations where the ethnic minorities are present during the Project implementation. The EMP will provide for free and prior informed consultations with the ethnic minorities, a social assessment commensurate with the nature and extent of the Project related impacts and will ensure culturally appropriate social and economic project benefits to the ethnic minorities where applicable.

76. The Resettlement Policy Framework (RPF) has been prepared, in accordance with World Bank Policy on Involuntary Resettlement - OP 4.12 for the Project as a precautionary measure because by appraisal of the Project, details of the SMES likely to benefit from this Project and the details of their operations and establishments were unknown. The Project is not expected to have any land acquisition that would result into physical displacement or loss of physical, economic and social assets since is not expected to support civil works. In the event that SMEs who are receiving export insurance services and products provided by the EIS, or from the matching grants, will undertake activities leading to the involuntary taking of land, this RPF will apply. For example, if those SMEs need to expand their production facilities for the purposes of increasing their exports.

77. The initial ESMF was disclosed at the Bank on March 5, 2014. The updated ESMF, including the RPF and the EMDF, has been disclosed both locally and at Info Shop on June 1,

2016. The MOF conducted consultation meetings with various stakeholders on the ESMF in March 2016.

78. **Gender:** The Mongolian society is family based and largely influenced by a nomadic way of life with the breeding of livestock as one of the main economic activities. Traditionally, women have been an active participant in all activities related to this way of life. During most of the 20th century, women and men enjoyed equal access to education and social rights, although a gender separation of roles, emphasizing women as mothers and housewives rather than entrepreneurs, kept women away from labor market participation.

79. Although today women are more active participants of the economic and political scene, Mongolian labor markets are still highly occupationally segmented by gender. In rural areas, women are involved in family business issues and decision making including selling or buying livestock and equipment, or moving. In urban locations, there is an increasing share of female workers and entrepreneurs engaged in manufacturing, tourism, and commercial activities. According to the 2015 Global Gender Gap Index, Mongolia ranks 56 out of 145 countries with a score of 0.709 (0=inequality, 1=equality).<sup>15</sup> Relative to all countries, Mongolia ranks well in terms of education and health scores for the female population, but underperforms in the political empowerment scores. Women holds 15 percent of the seats in the national parliament and 11 percent of the ministerial level positions. In 2012, a revised election law included the introduction of proportional representation for 28 of the 76 seats, and determined that a minimum of 20 percent of the candidates nominated and approved for parliament must be women.

80. According to the most recent data available, in Mongolia female participation in the workforce stands at 57 percent<sup>16</sup>, and 39 percent of firms in Mongolia have a female participation in ownership, while 37 percent employ a female top manager.<sup>17</sup> A study focused on SMEs and women-owned SMEs in Mongolia, found that there is a high use of banking services and familiarity with most financial and non-financial services offered in the market irrespective of the gender ownership and structure of the SMEs.<sup>18</sup> However, it is perceived that women have more challenges fulfilling collateral requirements than men, despite the fact that women and men have equal rights in inheritance, land use and ownership of the property. This seems to be related to two other factors: (i) the fact that women are more often involved in the informal than formal sector of the economy (nearly 60 percent of the entrepreneurs engaged in informal activities are women); and (ii) the common practice of issuing property titles under the household head, which is traditionally a man. The study also revealed that women recognized family and household responsibilities as their most important challenge limiting their time for developing their businesses, networking, and participating in training. Gaining acceptance from colleagues and customers, was identified as the second most important challenge. The proposed Project will provide equal opportunities for both females and males. However, female business owners are expected to benefit more from improved access to finance, skills, and social support, all of which will be supported by the Project.

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<sup>15</sup> World Economic Forum (WEF), “The Global Gender Gap Report”, 2015.

<sup>16</sup> The World Bank Group, “The Little Data Book on Gender”, 2016.

<sup>17</sup> The World Bank and International Finance Corporation (IFC), “Mongolia Enterprise Survey”, 2013.

<sup>18</sup> The International Finance Corporation (IFC), “SMEs and Women-owned SMEs in Mongolia, 2014.

81. Activities in each component of the proposed Project, especially Component 2, are expected to have positive impact on women and contribute to gender equity and empowerment for the benefit of the social structure. The main social impacts of the project are the increased opportunities for women entrepreneurs, specifically in wool, cashmere, and felt industry. This is expected to lead to an increase in overall women's earnings, with many of the positive externalities associated with higher women's earnings (Better family health and education outcomes, particularly girls, better nutrition) and hence likely on overall productivity and growth. Gender analysis and monitoring evaluation will be conducted during the implementation of the Project. To advance this, gender-specific results indicators for the project will be used.

## **F. Environment**

82. The Project will not support direct investments to construct, expand, rehabilitate or modernize existing facilities used for the production of export products. It will only lead to the provision of export credit insurance products for the benefit of Mongolian SMEs in the non-mining sector, as well as provide matching grants to such exporters. However, given that the exact types of activities of the SMEs supported by the Project will become known only during Project implementation, five Safeguards Policies were triggered: Environmental Assessment, Indigenous Peoples, Involuntary Resettlement, Natural Habitats and Forests, so that any activity benefitting from the Project will be properly assessed, should it have any environmental or social impacts. No category "A" operations are expected. The ESMF has been prepared, providing screening procedures, eligibility criteria and procedures for assessment of potential safeguards impacts, and developing measures to address them. The consultations with relevant stakeholders on the ESMF took place in March 2016. The ESMF was disclosed locally on March 31, 2016 and at the Bank InfoShop on June 1, 2016.

83. The MOF and the AgRe, through the PIU and the EIS will be responsible for implementing the ESMF. The AgRe and MOF staff or consultants appointed will be trained in order to successfully implement the ESMF. There could also be safeguard transaction costs for exporters to comply. The implementing entities will assign dedicated staff to get trained and then support the Project implementation.

84. **Citizen Engagement:** The project approached citizen engagement through: (i) consultations; (ii) citizen participation data collection and recording/reporting; (iii) grievance redress; (iv) capacity building; and (v) citizen participation in monitoring. There was wide consultation during social assessment, and the findings from the social assessment were fed into the project design. Grievance redress and citizen participation in monitoring will be achieved through the setting up of a hotline by the PMO for complaints, recommendations, and feedback. There will be regular public postings near project construction sites to update local communities on project progress and actions taken to address public complaints and respond to suggestions from the public.

## **H. World Bank Grievances Redress**

85. 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: [www.worldbank.org/grs](http://www.worldbank.org/grs). For information on how to submit complaints to the World Bank Inspection Panel, please visit [www.inspectionpanel.org](http://www.inspectionpanel.org).

**ANNEX 1: RESULTS FRAMEWORK**

	Indicator Name	Unit of Measure	Baseline	YR1	YR2	YR3	YR4	Frequency	Data Source/ Methodology	Responsibility for data Collection
<b>PDO Level I Results Indicators</b>										
1	Increase in export volume (by price) by the Project beneficiaries <sup>19</sup> (average)	Text	0	3%	7%	11%	15%	annually	Project records, exporter surveys	PIU and EIS
2	Number of SMEs that obtain internationally-recognized quality certification following support from the Matching Grant Facility (cumulative, disaggregated by the number of firms owned by women)	Number	0	2	5	10	15	annually	Project records, exporter surveys	PIU and MGF
3	Number of SMEs that start exporting following participation in project activities (e.g., Training and/or Matching Grant for quality certification and/or export insurance; cumulative, disaggregated by the number of firms owned by women)	Number	0	2	5	10	15	annually	Project records	PIU and EIS
4	Number of export finance products developed by AgRe	Number	0	0	2	2	2	annually	Project records	AGRE, PIU
<b>Intermediate Results Indicators</b>										
1	Growth in non-China exports by Project beneficiaries (percentage, average)	Text	0	5%	10%	15%	20%	Baseline, Mid-term and upon	Project records, exporter	PIU and EIS

<sup>19</sup> Project beneficiaries will include (i) SMEs which will benefit from the project, e.g., through the export insurance products, matching grants, training and research, and (ii) individuals who will benefit through the training activities under the Project; they will include representatives of SMEs, economic diplomats, and other training recipients.

								completion	surveys	
2	Number of SMEs benefitting from export insurance contracts issued by EIS (cumulative)	Number	0	0	5	15	25	annually	Project records	EIS, PIU
3	Increase in export revenues for SMEs benefitting from export insurance or guarantee contracts issued by EIS (average)	Number	0	0	5%	10%	10%	annually	Project records, exporter surveys	EIS and PIU
4	Increase in export revenues for MGF beneficiaries (average)	Number	0	0%	5%	10%	10%	annually	Project records, exporter surveys	PIU and MGF
5	Number of actual direct beneficiaries under all components, gender disaggregated (cumulative)	Number	0	15	40	80	120	annually	Project records	PIU
6	Beneficiaries that feel project investments reflected their needs (percentage)	Number	0	65	75	85	95	annually	Project records	PIU

## ANNEX 2: DETAILED PROJECT DESCRIPTION

### COMPONENT 1

1. **Development of a new line of export finance products (US\$10.74 million).** This component will provide financial, technical, and institutional development support to AgRe in building a new line of export finance products. It will enable AgRe to obtain knowledge on trade finance instruments and develop export credit insurance products and its to-be-established EIS to start providing export credit insurance to the Mongolian SMEs in the non-mining sectors. As an additional outcome from this component, the EIS will become a center of excellence on export credit insurance and will provide training and consulting services to insurance companies, financial institutions and exporting companies. This component will have two parts:

2. ***Sub-component 1.1: Knowledge transfer and capacity building for AgRe (\$1.0 million).*** This sub-component will finance staff of AgRe working on export finance instruments to go on short term (1- 6 months) fact-finding and study visits to solid foreign partner/s (to be determined jointly by AgRe and the World Bank) for on-site learning related to export credit insurance and other trade finance development. The sub-component will also allow partner institutions management and staff to visit AgRe for knowledge sharing sessions and bring in a resident advisor, if needed. It will allow AgRe to draw on the expertise and experience of consultants and relevant partners in developing export credit insurance products for the Mongolian SMEs and learn about other trade finance products. Once AgRe has developed the export credit insurance product line, it will obtain a license and establish its subsidiary – the EIS that will start providing export credit insurance products in Mongolia. The knowledge obtained under this sub-component will be transferred to the EIS.

3. The AgRe will set up a new Export Insurance Department of about 10 people with the strong collaboration of the PIU and will implement this sub-component in 2 stages:

- (i) The inception stage, during which AgRe will:
  - a. Conduct (i) assessment on existing export insurance related rules and regulations; (ii) technical assessment report on existing risk management along with policy design<sup>20</sup> (risk information tools and models, key performance indicators to identify business trends and support decisions on risk capacity, policy provisions and limits, information technology<sup>21</sup>) and (iii) comprehensive research along with client survey focusing on SMEs on the market demand in the areas of export finance;

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<sup>20</sup> Proper policy design is an important precondition for managing risk in export credit insurance. The key tasks of a credit insurer's risk management are to ensure the transparency of risk covered and to take all necessary measures to keep aggregate risk in line with the company's equity capital and risk tolerance.

<sup>21</sup> IT is lowering the cost and increasing the speed at which credit information is shared. Export credit insurance is more labor-and-capital intensive than other types of insurance because it requires interaction between seller, buyer and insurer through the policy term.

- b. Identify and contact internationally recognized organizations for twinning and training programs;
  - c. Send the key management and technical staff for short fact-finding missions to solid foreign partners for on-site learning;
  - d. Complete the comprehensive risk analysis of key inhibitors to export market, with risk disaggregated into insurable and non-insurable including a prioritization of risks that can be managed with insurance;
  - e. Complete product development and business plan for key risk identified in risk analysis; and prepare a five year portfolio risk management strategy, detailing how EIS will manage its capital and utilize it optimally over the life of the project.
- (ii) The development stage, during which AgRe will:
- a. Send people responsible for product development and sales to the established twinning partners for 1-6 months learning missions on export credit insurance products development and launch;
  - b. Draft and adopt the required internal regulations and policies;
  - c. Draft the roadmap along with the action plan for effective export credit insurance products implementation;
  - d. Discuss with the stakeholders the products road map and action plan;
  - e. Prepare export credit insurance products that meet the client's need;
  - f. Conduct key insurance processes, including: (i) underwriting guidelines for products developed; (ii) pricing methodology, if possible with an actuarial review, for products; and (iii) claims payment process.

4. As a result of implementation of this sub component, within the first 12-18 months of the Project the AgRe will develop at least 2 export credit insurance products suitable for the Mongolian market.

**5. Sub-component 1.2: The equity for AgRe Export Insurance Subsidiary (US\$9.74 million)** will back up export credit insurance policies issued to Mongolian exporters. Equity injections to the EIS will be made gradually over time, in three tranches of US\$3 million each, at the request of the Government. The first equity tranche will be made available only after the Association has conducted its legal due diligence and considers the EIS established in accordance with the best international practices, including its governance structure. The equity for the EIS will be provided to the AgRe as a sub-loan from the Government under a respective legal agreement on the terms acceptable to the Association. This sub-loan will be provided as an equity from AgRe to the EIS and will be used only for issuing export credit insurance products.

6. After receiving the first US\$3 million capital injection, the EIS will start conducting annual actuarial reviews of its capital requirements (related to the export insurance business). The second tranche of capital will be disbursed once the capital requirements for the export business are greater than US\$2 million. The third tranche of capital will be disbursed once the capital requirements as per the annual actuarial review are greater than US\$5 million. The EIS will develop a financial management system acceptable to IDA and will prepare and submit its



quarterly and audited annual financial statements to IDA. All financial statements will be made publicly available.

7. The Government and the Association will decide, based on EIS performance and oversight arrangements, no later than four months before the project closing date whether the provide equity will stay in EIS or will be returned to the Government to be used for the export development purposes as agreed to between MoF and the Association or in the absence of an agreement will be refunded by the GOM to IDA. In case the equity will stay in the EIS, it can be used only for the intended purposes, i.e. to back up export credit insurance policies. The Project Implementation Manual will provide detailed procedures.

8. The AgRe will make sure that the EIS is properly established and will pay-in the minimum capital required for the company registration. The IDA contribution will be made available only after the Association has conducted a legal due diligence on the EIS. EIS will offer export insurance cover to Mongolian exporters to enable them to mitigate the risk of non-payment. Depending on the type of insurance, both commercial and political risks will be covered, including buyer insolvency, non-payment, repudiation or termination of a contract by a buyer, currency transfer or conversion difficulties, war or insurrection, and cancellation of an import or export permit. The EIS will insure on a co-insurance basis.

9. The basic requirements for the export insurance cover will be satisfactory creditworthiness of the country of destination and of the buyer/guarantor or the viability of the company as evidenced by business information and reports, balance sheets, feasibility studies, etc. Cover will be offered to the Mongolian SMEs in the non-mining sectors for commercial goods and services of Mongolian origin. The premium charged by the EIS will depend on the type and extent of the risk covered.

10. The IDA credit will be used for equity injections to the EIS as an equity contribution from AgRe after the Government's sub-loan to AgRe under a respective financing arrangement. The following agreements are contemplated: (i) a financing agreement between IDA and Mongolia, (ii) a project agreement between IDA and AgRe; (iii) a subsidiary agreement between Mongolia and AgRe that governs the implementation by AgRe of component 1 (condition of effectiveness); (iv) a sub-loan agreement between MOF and AgRe on terms acceptable to IDA, also governing the use of the subsidiary financing, and the subordinated agreement governing the equity contribution from AgRe to EIS (conditions for disbursement of the first tranche capital contribution).

11. The MOF will be the principal executing agency for the project. Day-to-day management of the Project will be ensured by the PIU which consists of adequate technical staff and is headed by an experienced Project Coordinator. The PIU is currently implementing the MSTAP, and its performance has been Satisfactory. The technical capacity of the PIU will be strengthened by contracting full-time coordinators for components 2.1 and 2.2. The AgRe and EIS will carry out day-to-day implementation of Component 1, in strong collaboration with the PIU. The PIU will help AgRe to handle the fiduciary responsibilities for implementing activities under Sub-component 1.1. Accordingly, the AgRe, through EIS will only manage funds allocated to Sub-component 1.2 for establishing the EIS for provision of export credit insurance products. The IDA

funds will be made available in three tranches, after a request from the MOF and will be transferred directly to the EIS account.

12. Before any equity contributions are made available to the EIS, AgRe will need to make sure that the following is completed: (i) comprehensive risk analysis of key inhibitors to export market, with risk disaggregated into insurable and non-insurable including a prioritization of risks that can be managed with insurance; (ii) product development and business plan for key risk identified in risk analysis; (iii) a five year portfolio risk management strategy, detailing how EIS will manage its capital and utilize it optimally over the life of the project; (iv) underwriting guidelines for products developed; (v) pricing methodology, if possible with an actuarial review, for products; and (vi) claims payment process.

## **COMPONENT 2**

13. **Export competitiveness enhancement (US\$8.5 million).** This component will provide funding for (i) export-related training programs and (ii) matching grants which would support various expenditures by exporting SMEs directed at enhancing their competitiveness in global markets. This component will enhance overall competitiveness of SMEs by boosting productivity growth and improving quality of products, thereby creating more job opportunities for Mongolians, especially females. This component will have two sub-components as follows:

14. ***Sub-component 2.1: Increasing export know-how of Mongolian exporters through training and research on foreign trade (US\$2.5 million).*** This sub-component will provide training on foreign trade to Mongolian SMEs. It will augment existing public and private sector-provided training programs to Mongolian entrepreneurs interested in starting or increasing exports. Furthermore it will systematize such training, expand its modules, sectoral depth, geographical coverage, and virtual outreach. In addition to exporters, the component will provide training to business trainers and Mongolian diplomatic corps. This sub-component will also finance export-related research which would benefit specific export-oriented activities or groups of exporters.

15. The main beneficiaries of this program will be the Mongolian SMEs that are already exporting or have the potential and interest to export. The training component does not intend to restrict the beneficiaries to the non-mining sector SMEs as the training materials will be made available to all companies through the Project website. The customized training will be provided to the SMEs in the non-mining sectors (cashmere, meat, leather, etc.) only and they will benefit the most from this Project.

16. Main outputs from this sub-component will include various training programs with generic and specialized content; e-learning website on foreign trade; and customized training sessions, seminars, workshops held, with their proceedings recorded and made publicly available. Main outcomes will include enhanced knowledge on basic foreign trade and more specific export-related aspects among Mongolian exporters and other stakeholders; the number of new exporters increased during the implementation of the project; increased volume of exports and/or expanded targeted markets of exporters; enhanced capacity of government agencies, including MOF and MOIA, for developing export-related policies, programs, rules and regulations; and employment

increase in companies which benefited from export training.

17. The planned activities under the sub-component as follows:

18. E-Learning on Foreign Trade. MOF, potentially in cooperation with the existing providers of training on exports/foreign trade, will create a free online training section on their website with a series of training modules that are user-friendly. This service will especially benefit SMEs based in both UB and in provinces, and will save them time and money. This pragmatic and convenient tool will be made available to public so that anyone with interest can have access to the module. The content will be built through the collaboration among existing training providers, such as MNCCI. The setting up and maintenance of the website will be managed by the PIU.

19. Face-to-Face Training will include:

- **Generic training.** This fundamental training will be provided to potential exporters that lack knowledge on foreign trade. For instance, MNCCI currently provides training to businesses in Mongolia through their Foreign Trade Academy. This component will seek to improve the quality of the Academy's curriculum, thereby making the courses more practical and applicable to potential exporters or export-ready businesses with current export project. Through this training, businesses will familiarize themselves with market selection, product development/processing/improvement, entry strategy, and common risks associated with exporting. A course on Business English, especially the language and terminology skills needed in foreign trade, could be offered as part of this training segment.
- **Customized training.** This will be a more interactive training, provided to more established SMEs that have already started to export their products. A group of businesses in the same sector (for example, a group of small leather goods producers) or an association of companies will be able to apply for a more customized training tailored to their needs. There will be a maximum ceiling to the training cost per applying group or association. Training will be provided according to products or countries. As part of this sub-component, research and/or surveys on specific markets and industry analysis will be also conducted. Customized training will also be provided to SMEs and associations hiring people with special needs; e.g. the Disabled People's Association of Mongolia.

20. Workshops/Conferences/Seminars on Trade. This will bring exporters together to share experiences and gain knowledge on topics related to trade. A group of international companies/importers can visit Mongolia to provide their insights, in the form of "how do we do it" seminars. There will also be workshops organized targeting women entrepreneurs. The events will be co-organized by the Council of Women Entrepreneurs within MNCCI.

21. This sub-component will also be able to support other training-related activities which would lead to a transfer of knowledge on exports to various groups of exporting stakeholders in Mongolia. Such activities will include: (i) customized training for trainers who would later work

as advisors to Mongolian companies on business/foreign trade activities; (ii) customized training for Mongolian public sector officials, e.g., diplomatic corps and commercial attaches working at the Mongolian embassies abroad, on how to support national exports by prospecting foreign markets for Mongolian products, (iii) competition on product innovation can be held in Mongolian universities, whereby innovative ideas for new or improved export products would be supported, and relevant training would be provided to university students and teachers; and (iv) export mentorship, staff exchange and secondments, whereby formal mentorship and exchange programs could be set up and match more experienced Mongolian exporters with companies which are just starting their foreign trade activities, for the latter to learn on the job from the former.

22. The technical capacity of the PIU will be strengthened by contracting full-time Training Coordinator. The PIU will be responsible for managing all aspects of the training component. It will hire service providers through competitive bidding. The PIU will be responsible for inviting submissions for training requests from the exporting/export stakeholder community; processing the applications and approving them based on the set of eligibility criteria; developing TORs for the provision of specific training segments, either developing content or providing actual face-to-face training; inviting qualified content developers and trainers to bid for the training assignments; reviewing bids and recommending awards; overseeing performance of the content developers, consultants, trainers and implementations of their contracts; performing overall monitoring & evaluation of results and outcomes; and reporting to the MOF on the implementation issues.

23. ***Sub-component 2.2 Matching Grants for Increasing Exporters' Competitiveness (US\$6.0 million).*** This sub-component will provide matching grant support through a MGF to qualifying Mongolian SMEs in the non-mining sectors with the objective of increasing their capability to enter and compete in the export markets. The MGF will be demand driven and responsive to the needs of qualifying SMEs. Eligible activities supported by the MGF will include soft investments, including consulting services, workshops, travel and other non-capital goods directly relevant to the export development plan. The MGF will not co-finance investments, equipment purchases, or operational costs. A non-exhaustive list of eligible activities is as follows:

- Marketing research and plans
- Quality testing and certification
- Product adaptation
- Export fairs
- National and international marketing tours
- Fair trades
- Business strategy and planning
- Production management

24. An individual grant will cover 50 percent and no more than US\$100,000 of eligible expenses. No single SME may receive grants in excess of a cumulative limit of US\$100,000. For an individual SME to receive assistance, the key requirement will be to have an export development plan which will include a set of the enterprise's activities focused on developing

new export products or new export markets.

25. The MGF will be directed by a MGIM and the Bank Guidelines, including systems that ensure compliance with the minimum possible paperwork and complexity.

26. The MGF support will be available to proposals submitted by: (i) SMEs that are vested with a legal personality within Mongolia; (ii) meet the criteria for non-mining sector SMEs as defined by the Mongolian SME Law; and (iii) Have an eligible export development plans including a set of activities focused on any of the following:

- New export products
- New export markets
- New export companies

Public institutions or public enterprises are ineligible and ineligibility extends to any institution in which a public entity holds equity greater than 25 percent.

27. The criteria for expressions of interest are as follows:

(i) The export development plan supported by the MGF must be implemented by a SME with experienced management, financial strength, and a convincing export development plan. The firm needs to be registered in Mongolia and operating for at least two years.

(ii) Beneficiaries would be required to show an increase in exports equivalent to at least US\$5 for every US\$1 of support received from the MGF.

(iii) Beneficiary SMEs would be required to demonstrate evidence of complementary investments to support the ability to increase exports.

(iv) Applicants need to have prepared an export development plan, which demonstrates that SME has given serious consideration to the planning issues involved. An export development plan might typically take a firm through three stages:

- Investigation of the target market, usually starting with desk research or preliminary phone research, followed by more intensive field interviewing, carried out either by the firm's staff or by an outside service supplier, and market exploration visits by firm personnel;
- Product/service adaptation on the basis of information collected from the market, in order to respond to customer preferences; for instance, through changes in product design, rationalizing production to reduce costs, or through improved quality assurance; and
- With the adaptation completed, active selling of the improved product/services.

28. The MGF will be managed by an independent team within the PIU, staffed by individuals recruited from the private sector. The World Bank experience with the MGFs highlights the importance of independent selection. Therefore, the technical evaluation of each matching grants proposal will be conducted by independent MGF team members before they are submitted for the Evaluation Team's approval. The MGF Coordinator will be responsible for day-to-day activities of the MGF, establishing relationship with beneficiary firms, supporting the development of their export development plans and activities related, presenting these projects to the MFG Evaluation Team for approval, and monitoring the performance of approved grants to support the implementation of export development plans in collaboration with the PIU. The information on all matching grants beneficiaries will be disclosed at the website of the Project.

## ANNEX 3: IMPLEMENTATION ARRANGEMENTS

### Project Institutional and Implementation Arrangements

1. The Export Development Project will be implemented by the MOF over a 4.5 year period.
2. The MOF, via PIU, will be responsible for the implementation of the Project, including overall coordination, results monitoring and communicating with the WB on all fiduciary aspects. A PSC will be established at the MOF for the Project oversight. The MOF, via PIU, will implement sub-components 1.1 on training and product line development, with the assistance of AgRe, and components 2 and 3 of the Project as the primary entity. AgRe will be the primary implementing agency for sub-component 1.1 with respect to the establishment of EIS and for sub-component 1.2 on operation of the facility (the EIS) and will assist MOF in the implementation of sub-component 1.1. AgRe will establish a new Export Insurance Department with 10 people for the sub-component 1.1 purposes. This Department will later become the staff of the EIS.
3. The PSC of the Project will be led by the representative of the MOF and will include representatives from the MOF, AgRe, Ministry of Food and Agriculture; and from the private sector, including e.g. the MNCCI, Mongolian Insurers' Association and Mongolian Business Council. The PSC will be responsible, among others, for: (i) providing overall policy guidance; (ii) reviewing Project reports; and (iii) ensuring synergies among the Project and other public and private sector initiatives on export development. The PSC will hold meetings at least annually, and a PSC meeting (actual or virtual) can be called at any time when required. The Head of the PSC will be appointed in accordance with the laws and regulations of Mongolia, and with terms of reference satisfactory to IDA. The Head of the PSC will also be responsible for: (i) overseeing the work of the PIU in accordance with the strategic direction provided by the PSC; and (ii) calling actual or virtual meetings of the PSC. The Head of the PSC will be supported by the PIU, led by a Project Coordinator. Regular project implementing issues will be delegated to the PIU Coordinator, including the submission of requests for the Association's no-objection.
4. The PIU will be responsible for project implementation, including overall project management, financial management, monitoring, evaluation, and reporting. The PIU will report to the head of the PSC, MOF and the PSC. The PIU will hire additional staff under TORs satisfactory to the Association, to accommodate all the responsibilities under the Project. The PIU shall include: a Project Coordinator; a financial management specialist, a procurement specialist, M&E specialist and other support staff (IT specialist, Financial Management assistant), and additional 4-5 people to lead implementation of Component 2 of the Project. The Project's Organizational Chart is shown in Annex 6.
5. The role of PIU will include the following:
  - (a) Provide overall management and implementation support of project activities, coordination with the WB, MOF management and concerned departments, other Ministries and agencies/stakeholders at the national level for overall implementation guidance, institutional arrangements and technical guidance/support;

- (b) undertake loan and operating accounting;
- (c) implementation of the PIU activities, including, but not limited to management of consultancy contracts and training;
- (d) preparation of overall workplan, annual workplan, procurement, financial plans, regular and progress and thematic reports for the Project;
- (e) implementation of the M&E of the Project activities, impact evaluation against the Project's results framework and performance indicators; and
- (f) organization of implementation support visits, mid-term review, and final review.
- (g) bring issues that may arise and which cannot be resolved at the level of the implementing units to the immediate attention of the head of the Steering Committee, to the Steering Committee and/or to the Bank for resolution;

6. The PIU will be responsible for: (a) procurement, including all contracting of technical assistance services; (b) project monitoring, reporting, and evaluation; and (c) financial record keeping, financial management reports, the Designed Account, and disbursements. The reporting responsibilities include the preparation of: Financial Monitoring Reports (FMR), Progress Reports (PR), and Procurement Management Reports (PMR); more details on this will be provided in the PIM.

7. A PIM will be developed by Project effectiveness, and updated from time to time by the Borrower with the prior written agreement of IDA, to support the PIU to meet its responsibilities for management of the Project. The Manual will describe the PIU's division of responsibilities, operational systems and procedures, including the PIU's organizational structure, office operations and procedures, finance and accounting procedures (including funds flow and disbursement arrangements), and procurement procedures. The PIM will also provide detailed implementation aspects for Components 1 and 2.

8. As needed, specific technical working groups will be established by the PIU and MOF, with membership drawn from export development stakeholders such as respective ministries, the AgRe, beneficiary firms, private sector chambers and associations, agencies and consultants. These technical working groups will be given specific tasks related to the development of TORs/technical specifications or elicitation and verification of user requirements related to the development of exporter training and research modules. Also, given that a significant part of the Project is knowledge transfer and capacity building, the PIU will ensure that various stakeholders, such as public agencies, beneficiaries, sector associations, and NGOs can record and catalogue their learning and share it during the implementation process.

9. The AgRe will be primary implementation agency for Component 1 of the Project, in strong collaboration with the PIU. The EID of AgRe will be responsible for developing export credit insurance products and its Head will also serve as this component's coordinator. The EID will perform legal and market analysis and assessment in these areas; arrange for staff to acquire relevant knowledge/expertise from appropriate foreign partners; and oversee enactment of the required internal policies, regulations, and action plans for development of the new products. AgRe will also be responsible for establishing and operationalizing EIS in accordance with the

best international practices, including the governance structure. EIS will issue new export insurance products.

10. The Matching Grants sub-component 2.2 will be implemented through a Matching Grant Facility (MGF), established within the PIU. The MGF will be staffed by individuals from private sector, to conduct independent technical reviews of the matching grants proposals. The MGF will be led by a MGF coordinator. The MGF will be directed by a MGIM.

11. Specific arrangements will apply to the implementation of Sub-Component 2.2 – MGF. The MGF day-to-day work will be managed by an independent team of experts – led by the MGF coordinator - within the MOF PIU management, which will be accountable to the MGF Evaluation Team. The MGF coordinator will be supported by individuals recruited from the private sector. It is expected that MGF coordinator will have international experience operating similar facilities. The other team members will ideally bring direct experience in providing consulting and/or mentoring services to private firms. The MGF Coordinator will be responsible for day-to-day activities of the MGF, establishing relationship with beneficiary firms, supporting the development of their export development plans and activities related, presenting these projects to the MGF Evaluation Team for approval, and monitoring the performance of approved grants to support the implementation of export development plans in collaboration with the PIU.

12. A MGIM will be jointly prepared by the PIU and the WB before the implementation of the MGF can start and disbursements can be made. The MGIM will also provide details of the simplified approval process of the matching grants: (i) up to US\$66,000 will be approved by the MGFs independent experts at the PIU; and (ii) US\$ 66,000 -100,000 by the Evaluation Team, on the no objection bases, within 5 working days.

13. The MGF Evaluation Team will consist of two public sector representatives, three private-sector nominees, and an independent chairperson. Public representatives will ideally represent MOF and the MOIA. The private sector nominees will be selected on a one-year rotating basis from among representatives of export-oriented industry associations and the MNCCI. The independent chairperson will be appointed by MOF, and the MGF coordinator will provide secretariat services. The responsibilities of the MGF Evaluation Team will include (a) ensuring proper execution of the MGF according the MGIM, (b) approving applications recommended by the MGF coordinator, (c) approving the annual plan submitted by the MGF coordinator; (d) and submitting the annual activity and financial status report to the PIU, MOF and the Association.

14. For the implementation of the training sub-component 2.1, the technical capacity of the PIU will be strengthened by contracting a full-time Training coordinator. The PIU will be responsible for managing all aspects of this sub-component. It will hire service providers through the competitive bidding. The PIU will be responsible for inviting submissions for training requests from the exporting/export stakeholder community; processing the applications and approving them based on the set of eligibility criteria; developing TORs for the provision of specific training segments, either developing content or providing actual face-to-face training; inviting qualified content developers and trainers to bid for the training assignments; reviewing bids and recommending awards; overseeing performance of the content developers, consultants,



trainers and implementations of their contracts; performing overall monitoring & evaluation of results and outcomes; and reporting to the MOF on the implementation issues.

## **Financial Management, Disbursements and Procurement**

### *Financial Management*

#### **Introduction/Summary**

15. The FM team has conducted an assessment of the adequacy of the project financial management system for the Mongolia EDP. The assessment, based on guidelines issued by the Financial Management Sector Board (FMSB) on March 1, 2010, has concluded that the Project meets the minimum Bank financial management requirements, as stipulated in BP/OP 10.00. In the FM team's opinion, the Project will have financial management arrangements acceptable to the Bank and, as part of the overall arrangements that the borrower has 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. Financial management risk is the risk that WB loan proceeds will not be used for the purposes intended and is a combination of country, sector, and project-specific risk factors. However, the FM capacity assessment did not identify any major risks associated with the proposed implementation arrangements as the existing MSTAP PIU possesses abundant knowledge and experience with regards to managing Association-financed projects and has a well-established financial management practices and an accounting and reporting system. The PIU will include a designated financial management specialist. A Financial Management Manual (FMM) will be developed as part of the PIM to include detailed FM arrangements specific this project.

16. Overall, the residual FM risk for the Project is assessed to be **Moderate**.

17. A Table 5 below lists the main FM weaknesses and risks identified during the assessment and proposed mitigation measures to address them. Proposed mitigating measures highlighted in italics in the table are not expected to be carried out before effectiveness of the Project. Therefore, they are for future reference and are not taken into account in determining the project's residual risk rating at this stage. The FM team will closely monitor the project FM risk during the entire project implementation.

#### **Weaknesses and Action Plan**

18. The following plan of actions has been identified to address the FM weaknesses and related risks:

**Table 5: FM Weaknesses and Action Plan**

<b>Significant weaknesses</b>	<b>Actions</b>	<b>Responsible Person</b>	<b>Completion Date</b>
Readiness of the financial management arrangements for sub-component 1.2	- Detailed arrangements for managing the equity for the new AgRe subsidiary for provision of export credit insurance products and services will need to be identified and agreed by the Association.	MOF, AgRe and the Association	Prior to disbursement of the first tranche of the capital contribution
Readiness of the MGIM for activities under sub-component 2.2.	- A detailed manual describing the procedures, including those relating to financial management, for providing matching grants to Mongolian exporters towards implementing their export development plans and enhancing their competitiveness will have to be prepared and agreed by the Association.	MOF/PIU and the Association	Prior to disbursement from the related expenditure category

**Risk Assessment and Mitigation**

19. The following risks with the corresponding mitigating measures have been identified during the assessment:

**Table 6: FM Risk Assessment and Mitigation Measures**

<b>Risk</b>	<b>Risk Mitigating Measures Incorporated into Project Design</b>	<b>Risk Rating After Mitigating Measures</b>
<b>Inherent Risk</b>		
<ul style="list-style-type: none"> <li>Country Level</li> </ul> <p>Potential changes to take effect in the financial management arrangements for the World Bank -financed operations in the country: Ring-fenced controls will be maintained for the World Bank project funds until the projects are integrated into the Treasury Single Account within the Government Financial Management Information System in accordance with the</p>	<p><i>The World Bank's FM team will be working closely with the relevant departments at MOF regarding the potential transfer of project funds into the Treasury and will be consulted on the related implications of the transfer on the projects' financial management arrangements.</i></p>	High

Integrated Budget Law. When the transfer to the Treasury is made, the project's financial management arrangements will need to be discussed and revised accordingly.		
<ul style="list-style-type: none"> <li>Entity Level</li> </ul> <p>Management of Component 1.2 by AgRe: The project's implementing agency is MOF. While MOF has prior experience of implementing the World Bank projects, activities under Subcomponent 1.2 are to be managed by AgRe.</p>	<i>Detailed arrangements of setting and managing the equity contributions under Subcomponent 1.2 will be reviewed and agreed by the Association.</i>	Moderate
<ul style="list-style-type: none"> <li>Project Level</li> </ul> <p>Tailoring of the project's financial management arrangements to the proposed project:</p> <p>The MSTA PIU has a qualified financial staff and financial managements systems used for managing its existing project. Those systems will have to be tailored to the nature and needs of the proposed project.</p>	A FMM as part of the OM, will be developed specifically for the project to describe the financial management arrangements for the project in detail.	Low
<b>Control Risk</b>		
<ul style="list-style-type: none"> <li>Budgeting</li> </ul> <p>Project funds not being used for the intended purposes due to poor budgeting and budget controls: Although it is not expected to be high or substantial, there is a risk that the project funds will not be spent in accordance with the project budget; hence not for the purposes intended.</p>	<i>A budget covering the entire implementation period of the project with quarterly breakdowns will be prepared and approved by the relevant project authorities. The PIU will conduct regular variance analysis to ensure that project activities are implemented as planned. When large discrepancies are noted between the planned and actual amounts, the PIU will communicate the issue with the task team and take relevant actions as required.</i>	Moderate
<ul style="list-style-type: none"> <li>Accounting</li> </ul> <p>Modification of the existing accounting system: The accounting software currently</p>	The PIU will work closely with the software vendor and the Association on modifying the accounting software e.g. add a	Low

<p>used by the MSTA PIU will be modified as necessary to meet the proposed project's needs.</p>	<p>separate database for the proposed project and set up a new chart of accounts, etc. to meet specific requirements of the project, if applicable.</p>	
<ul style="list-style-type: none"> <li>• Internal Control</li> </ul> <p>Adherence to the internal control arrangements.</p>	<p>Generally, the project FMM to be developed as part of the OM specifying financial management and disbursement procedures will need to be strictly followed during the entire project implementation for smooth and effective implementation of the project.</p> <p><i>In addition, for activities under Sub-component 1.2 for providing equity for the to-be-established Subsidiary of the AgRe, detailed arrangements for managing such a fund will need to be clearly defined. For Sub-component 2.2, a Matching Grants Manual is also to be developed.</i></p>	<p>Moderate</p>
<ul style="list-style-type: none"> <li>• Funds Flow</li> </ul> <p>Delays in project funds flow: Straightforward disbursement and funds flow arrangements will be applied to the project. However, activities under Subcomponent 1.2 and 2.2 are dependent on AgRe's readiness of establishing the EIS and the preparation of the matching grant manual, respectively, that may delay project disbursement.</p>	<p><i>The MOF will work closely with the PIU, AgRe and the Association on meeting the disbursement conditions in order not to hinder the project flow of funds.</i></p>	<p>Moderate</p>

<ul style="list-style-type: none"> <li>Financial Reporting</li> </ul> <p>Reliability &amp; timeliness of financial reporting: The project will have to adopt financial reports with the necessary content in a format acceptable to the Association; and these Interim Financial Reports (IFRs) will be prepared and submitted to the Association for review on a quarterly basis as specified in the legal agreement. The IFRs will have to be generated from the existing software to be modified to fit the proposed project's reporting requirements.</p>	<p>Necessary modifications to the existing accounting software will need to be made and tested in order to ensure that the project IFRs are generated from the system with the required content and format.</p>	<p>Low</p>
<ul style="list-style-type: none"> <li>Auditing</li> </ul> <p>Generally, there is a risk that the integrity of project auditors being compromised and poor follow-up on audit findings is done by the PIU.</p>	<p><i>An independent external audit firm, acceptable to the Bank, will be appointed by the Mongolian National Audit Office to conduct the project's annual audit under agreed terms of reference. The Association's FM team will monitor the PIU's implementation of the annual audit findings.</i></p>	<p>Moderate</p>
<ul style="list-style-type: none"> <li>The risk of overcapitalization of EIS which is mitigated by the disbursement in tranches</li> </ul>	<p><i>The equity will be made available in three tranches, of which two and third are performance based, linked to the volume of premiums</i></p>	<p>Moderate</p>
<p><b>Overall:</b></p>		<p><b>Moderate</b></p>

### Disbursement and Funds Flow Arrangements

20. Four disbursement methods: advance, reimbursement, direct payment, and special commitment, will generally be available for the Project. The primary method of disbursement for the project will be advance. Supporting documents for Association's disbursements will be the World Bank's Withdrawal Application, statements of expenditures (SOEs) or records like contracts and invoices. The detailed requirements will be laid out in the project disbursement letter to be issued by the Association.

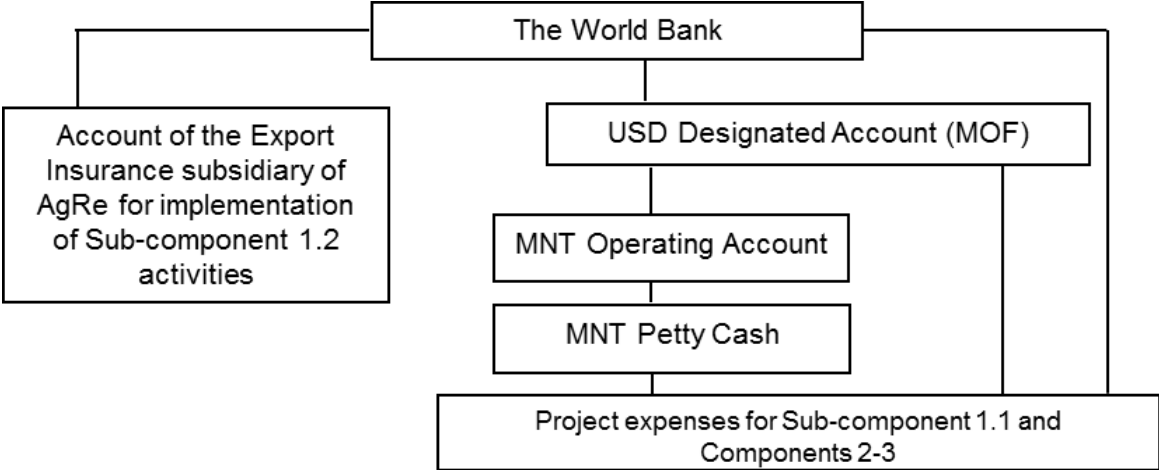
21. The MOF PIU will maintain and manage one Designated Account (DA) in USD at a commercial bank, on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachments. The ceiling of the DA will be discussed and agreed between the Association and the recipient and will be specified in the Association’s disbursement letter. Furthermore, accounts of Association-financed projects may move into the Treasury Single Account System within the Government Financial Management Information System (GFMIS). If/when such a change takes place; the DA arrangement will be revised accordingly.

22. To make payments in the local currency, MNT, the PIU can open a sub account in MNT at the same financial institution where the DA is located. The ceiling of this account will be discussed and agreed between the Association and MOF and be specified in the Association-issued disbursement letter. The authorized signatories from the MOF/PIU will approve payments from this operating account. The PIU can utilize petty cash up to the ceiling to be established and approved under the project’s internal control procedures. The PIU will be responsible for conducting regular reconciliation of the DA, the operating account and petty cash balances.

23. For subcomponent 1.2, the credit proceeds will flow from the Association to an account managed by the EIS equity injections. For this disbursement category (Category 2) there is a condition that requires the detailed arrangements of setting up and managing the equity of EIS to be reviewed and agreed by the Association prior to withdrawals from the category is made.

24. Chart 5 shows the general flow of funds for the project as previously described:

**Chart 5: Flow of Funds for the Project.**



25. The Project proceeds will be disbursed against eligible expenditures as shown in Table 7.

**Table 7: Eligible expenditures for disbursement**

<b>Disbursement Category</b>	<b>Allocated Amount (million US\$)</b>	<b>Disbursement Percentage</b>
(1) Goods, non-consulting services, and consultants' services for the Project under Part 1.1(a) and (b) of the Project	1.0	100
(2) Capital Contribution for the operation of the Facility under Part 1.2 of the Project:		
(a) First tranche	3.0	100
(b) Second tranche	3.0	
(c) Third tranche	3.0	
(3) Goods, non-consulting services, consultants' services and Training under Part 2.1 of the Project	2.5	100
(4) Matching Grants under Part 2.2 of the Project	6.0	100% of amounts disbursed
(5) Goods, non-consulting services, consultants' services, Training and Incremental Operating Costs under Part 3 of the Project	1.5	100
<b>Total Financing Amount</b>	<b>20.0</b>	

26. The PIU will directly be responsible for preparing withdrawal applications. Withdrawal applications submitted to the Association will be signed off by authorized representatives from the PIU and MOF. These documents should be made available for review by auditors and implementation support visits by the Association. If the auditors or the Association finds any expenditure that is not justified by the supporting documentation; hence declare the expenditure ineligible, the Association may take further actions necessary as per the related policies.

### **Budgeting**

27. The PIU will prepare a work plan and budget for the entire implementation period of the project, with quarterly breakdowns, which will identify the detailed project activities. The work plan and budget will be submitted to the relevant project authorities e.g. the Association and the PSC for approval. Moreover, the work plan and the budget will be consistent with the agreed format of the project IFRs.

28. The PIU is required to conduct regular budget vs. actual variance analysis, report them on the quarterly IFRs, provide reasons why significant differences occur between the planned (budget) and actual expenses, if any, and take necessary corrective actions.

## **Accounting and Financial Reporting**

29. Accounting and reporting of the project will be set up in accordance with the Association's requirements, which obligate Borrowers to prepare financial statements in accordance with acceptable accounting standards. The Association does not mandate a particular format for annual financial statements; however, where a Borrower prepares financial statements on the modified cash-basis, the Association encourages the adoption of formats laid out in the International Public Sector Accounting Standards (IPSAS), and Financial Reporting under the Modified Cash Basis of Accounting, in order to monitor any non-cash transactions. The PIU will adopt the modified cash basis of accounting for preparing financial statements. The project financial statements will include the following:

- Balance Sheet of the Project;
- Statement of Sources and Uses of Funds by Project Components;
- Statement of Implementation of Credit Proceeds;
- Statement of Designated Account for the Credit; and
- Notes to the financial statements

30. The PIU will prepare Interim Financial Reports (IFRs) on the quarterly basis and submit them to the Association for review within 45 days after the end of each calendar quarter. The Association task team will monitor the project's accounting and financial reporting processes, especially during the initial stages of project implementation, in order to ensure complete and accurate financial information is available to the relevant project stakeholders in a timely manner.

## **Internal Control**

31. In order to mitigate risks in the areas of internal control, regular oversight by the PSC, periodic implementation support visits by the Association's task team and annual financial audits by independent external auditors will serve as mechanisms for ensuring the project financial management systems function effectively. In addition, proper authorization for payment requests, segregation of duties, and other internal control procedures and practices relating to financial management of the project will be defined and laid out in the Project's FMM. The procedures identified in the FMM will have to be closely followed by all the parties involved in the project implementation.

## **Audit Arrangements**

32. The Association requires the project financial statements to be audited in accordance with auditing standards acceptable to the Association. Therefore, in line with other World Bank financed projects in Mongolia, the MNAO will appoint an independent external auditor acceptable to the Association to conduct an annual audit of the project accounts, in accordance with International Standards on Auditing, under terms of reference satisfactory to the Association. The audit will be financed from the credit proceeds.



33. The auditors will: (a) express an opinion on the project financial statements; (b) determine whether the DAs have (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 Statement of Expenditures (SOEs) 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.

34. The annual audit report on the project financial statements will be due to the Association within 6 months after the end of the reporting date. This requirement is stipulated in the Financing Agreement. The responsible agency and timing are summarized as follows:

**Table 8: Reporting Requirements**

<b>Audit Reports</b>	<b>Submitted by</b>	<b>Date Due</b>
Project Financial Statements	PIU under MOF	June 30 of each calendar year
Entity’s Financial Statements	AgRe	June 30 of each calendar year
Financial Statements	EIS	June 30 of each calendar year

35. The AgRe and EIS will have their annual financial statements audited by an internationally recognize auditor, and will submit them to the Association within 6 months after the end of the reporting period. The Association may require the Export Insurance Subsidiary, after the closing date, to make the annual audited financial statements publically available and furnish them to the Association and perform a special performance audit. The costs of such audits will be borne by EIS.

**Supervision Plan**

36. The supervision plan for this project will based on its FM risk rating, which will be evaluated on a regular basis by the FMS in line with the FMSB’s FM Manual and in consultation with the task team leader. In the initial stages of the project implementation, FM reviews will focus on the following areas:

- The PIU’s adherence to the procedures identified in the Project’s FMM
- Timeliness and accuracy of the project accounting and financial reporting; and testing of the software
- Review of relevant documents supporting the project expenditures incurred for completeness and appropriateness and
- Status on the development of the Matching Grants Manual and the financial management arrangements for the activities under Sub-component 1.2 on providing the capital contributions, in the form of equity investments, for the EIS of AgRe.

## Reporting Arrangements

37. In order to ensure project financial management is maintained at a high quality, it is agreed that the MSTAP PIU will handle this Project.

38. The PIU will be overseen by the Head of the PSC. The PIU will be led by a Project coordinator responsible for the overall management of project activities and compliance with its objectives, and for ensuring proper coordination among the various government agencies. The PIU will also include (a) Financial management specialist and a Financial Management Assistant responsible for budget preparation and follow-up, financial management including operation of the DAs, disbursement, and financial reporting; and (b) Procurement Specialist responsible for carrying out procurement activities consistent with procedures approved by IDA, managing on-going contracts, and reporting on the progress of procurement activities and deliverables under contract (c) M&E specialist will coordinate all project evaluation activities based on the performance indicators of the results based monitoring and evaluation framework.

39. The Project coordinator will report to the Head of the PCS and will be responsible for: (i) execution of the Project based on the PIM; (ii) managing procurement activities including all contracting for technical assistance services, project contract monitoring, reporting and evaluation; (iii) project financial management, accounting and record keeping, management of the DA, disbursements; and financial reporting; and (iv) maintenance of communication and coordination between the MoF and the various beneficiary government agencies and other stakeholders involved in the project.

40. AgRe and MGF will each have technical coordinators responsible for technical completion of relevant project components implementation and ensure the achievement of contractual objectives and deliverables by the Project.

41. The PIU will be responsible for overall coordination of the fiduciary aspects of the project including financial management, accounting, and auditing. In particular, it will be at least responsible for, but not limited to the following:

- Designing and establishing a computerized financial management system including assigning a chart of accounts;
- Maintaining up-to-date accounting records and ledgers as well as asset management;
- Preparing project financing plans on annual basis;
- Conducting variance analysis on project financial position and take further actions;
- Recording transactions for all project activities;
- Managing and maintaining the DA-A and its reimbursement;
- Preparing monthly bank reconciliation statements in a timely manner;
- Preparing SOEs and Summary sheets, withdrawal applications, and supplier records;
- Ensuring that a proper internal control system is in place to achieve accountability at all levels;
- Preparing quarterly Project FMRs as part of Project Progress Reports and submitting them to the Bank;
- Preparing quarterly financial statements in accordance with consistently applied accounting standards acceptable to the Bank;

- Submitting audit reports;
- Properly filing and maintaining all accounting forms and supporting documents;

42. The EIS of AgRe will furnish to MOF and the Association an annual report of the activities of the EIS, in a form acceptable to the Association, showing statements of outstanding insurance liabilities, statements of any policy issued (together with a copy of the relevant agreements; claims received, pay-outs made, and any amounts recovered by the Subsidiary during the period reported in connection with any insurance issued), and a report on the risk profile of the insurance products supported by the EIS.

## **Procurement**

43. The MOF will have direct responsibility for processing project procurement for export-related training programs to Mongolian entrepreneurs, handling matching grants and other capacity building and consultant's assignments. As the beneficiary agencies, AgRe and the EIS will provide technical inputs to the PIU for technical specifications and terms of reference, participate in evaluating bids and proposals for their activities, and assist in supervising suppliers and consultants. Procurement under the Matching grant component will be handled by the beneficiaries using the simplified procurement methods described in the MGIM.

44. In order to improve the procurement procedures the following actions were discussed and agreed with MOF: (a) A user friendly procurement manual that describes accountability and responsibility of all parties and all steps of the procurement process to be developed and agreed with the Bank; (b) MOF to prepare a procurement training program (internal/external) acceptable to the Association to be implemented over the life of the project that is both relevant and practical; (c) MOF and AgRe to involve technical staff and users in preparation of specifications and terms of reference, and in bid/proposal evaluation; (d) MOF and AgRe to ensure procurement planning is realistic and ensure that all parties concerned keep to the agreed schedule and (e) The WB to provide just-in-time advice and implementation support to the relevant beneficiaries.

45. Procurement will be carried out in accordance with the "Guidelines: Procurement of Goods, Works and Non-Consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers" dated January 2011 (revised July 2014); and "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by World Bank Borrowers" dated January 2011 (revised July 2014) and the provisions stipulated in the Financing Agreement.

- Works and Supply and Installation. No works or supply and installation contracts are expected to be procured under the project.
- Goods and non-consulting services procurement. Goods to be procured by MOF under the project will include office equipment and furniture, as well as some printing contracts. Sample bidding documents agreed with the Bank shall be used for all NCB.
- Selection of Consultants. The project will finance various consulting services assignments to be contracted by MOF for capacity building and specialized technical services. The

Bank's Standard Request for Proposals (SRFP) shall be used for all consulting services contracts with consulting firms.

- Training and Workshops. The MOF together with AgRe shall prepare learning plans as part of work plans for Bank review and no objection. The plan shall include details of the learning event including description, learning objectives, indicators, type (e.g. 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 Bank may request. Any modification to the plan requires Bank review and no objection.
- Matching Grants. Beneficiaries of the matching grants will conduct procurement using well-established private sector methods or commercial practices acceptable to the Bank.

46. The procurement/consultants selection procedures to be described in the procurement manual include national competitive bidding, shopping, direct contracting, QCBS (Quality- and Cost- Based Selection), CQS (Selection Based on the Consultants' Qualifications) SSS (Single-Source Selection) and Selection of Individual Consultants. The 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 procurement plan, standard bidding documents/requests for proposals and forms of agreements for works, goods and services, and a format for reporting on procurement and contract progress. The Manual will also include provisions for the roles, functions and responsibilities of MOF and AGRE staff in relation to the processing and approving procurement.

47. The MOF in consultation with AgRe has prepared a procurement plan for contracts to be procured during the first 18 months of project implementation. It will be made available in the projects database and the website and on the WB's external website. The procurement plan will be updated annually or as required to reflect implementation needs and improvements in institutional capacity.

### **Thresholds for Procurement Methods and Prior Review**

48. The procurement plan shall set forth those contracts which are subject to prior review by the Bank. The prior-review thresholds in Table 9 are indicative.

### *Frequency of Procurement Supervision*

49. Procurement Supervision by the Bank will be carried out once a year. Procurement post review (PPR) for contracts procured by MOF will be carried out once a year. The sampling ratio will be at least 1 in 5 contracts.

**Table 9: Procurement Thresholds**

	Prior Review Thresholds (US\$ million)	Procurement/Selection Method Thresholds (US\$ million)						
		ICB	NCB	Shopping	QCBS	QBS	CQS	SSS
Goods and non-consulting services	First 2 NCB goods contracts irrespective of value and all contracts $\geq 0.5$	$\geq 1.0$	$< 1.0$	$< 0.1$				
Consulting Services	First contract for each selection method and all contracts $\geq 0.2$ provided by firm, $\geq 0.02$ for SSS (individual and firms)				--	--	$< 0.3$	--

Note: (a) “—” refers to No Threshold. (b) All Direct contracting subject to prior review.

### Environment and Social (including Safeguards)

50. The project is classified as a FI project. It will reach individual companies through sub-components 1.2 (AgRe’s export insurance subsidiary) and 2.2 (Matching Grants). The project will not support any direct investments to construct, expand, rehabilitate or modernize existing facilities used for the production of export products. It will lead to provision of export credit insurance products for the benefit of Mongolian small and medium size exporters in the non-mining sectors, as well as to provision of matching grants to such exporters. Given that the exact types of activities supported have yet to be identified, these activities may have environmental and social impacts. As a precautionary measure, the safeguards policies triggered include Environmental Assessment, Indigenous Peoples, Involuntary Resettlement, Forests and Natural Habitants.

51. Specific activities to be financed will be screened and assessed in terms of their potential environmental and social impacts and be categorized either as a Category A, B or C. It is not anticipated that there will be Category A activities. Particular attention will be given to the potential environmental and social impacts of export-oriented operations of beneficiary SMEs. Any potential impact is expected to be confined and managed within the areas of operation of individual exporting SMEs.

52. An ESMF, including the RPF and the EMDF, has been prepared, providing screening procedures. Key steps include due diligence, screening, safeguard documentation, public consultation and disclosure, review and approval, and legal/contractual obligation, and monitoring and reporting. The ESMF also includes eligibility criteria and procedures for assessment of potential safeguards impacts and developing measures to address impacts.

53. The consultation with relevant stakeholders on the ESMF took place in March 2016. The ESMF was locally disclosed at the Governmental website<sup>22</sup> on May 31, 2016 and at the Bank InfoShop on June 1, 2016.

54. The MOF and the AgRe through the PIU and the EIS will be responsible for implementing the ESMF. The AgRe and MOF staff or consultants appointed would be trained in order to successfully implement the ESMF. There could also be safeguard transaction costs for exporters to comply. The implementing entities will assign dedicated staff to get trained and then support Project implementation.

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<sup>22</sup> <https://www.mof.gov.mn/2016/05/mongolia-export-development-project-environmental-and-social-management-framework/>

## ANNEX 4: IMPLEMENTATION SUPPORT PLAN

1. The Implementation Support Plan focuses on mitigating the risks identified in the SORT, and aims at making implementation support to the client more 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 result framework), as well as identify the minimum requirements to meet the World Bank's fiduciary obligations.

- a. *Procurement.* Implementation support will include: (a) providing additional staff and training as needed to MOF to assist with preparation of technical specifications and TORs; (c) reviewing procurement documents and providing timely feedback to the MOF PIU and the AgRe, (d) providing detailed guidance on the World Bank's Procurement and Consultant Guidelines to the PIU; and (e) monitoring procurement progress against the detailed Procurement Plan.
- b. *Financial management.* Implementation support will include: (a) reviewing of the country's financial management system, including but not limited to, accounting, reporting and internal controls; (b) leveraging the PIU; (c) providing training as needed to the PIU; and (d) reviewing submitted reports and providing timely feedback to the PIU.
- c. *Other Issues.* Sector level risks, implementation aspects, and expanding the export development program on the EDP platform will be addressed through policy dialogue with the MOF, AgRe, EIS, and other stakeholders and agencies.

### Implementation Support Plan

2. The relative complexity of structuring and implementing the Project will require intensive implementation support. In particular, support will be required during project preparation, preparing the Project's implementation manuals, and the first two years of implementation. The WB team members based either in Washington, D.C., or in country offices will be available to provide timely, efficient and effective implementation support to the clients. The WB team visits will be carried out at least three times annually in the first two years, with two annual visits in later years of the Project. These will be complemented with regular ICT-enabled exchanges between teams to discuss Project progress. Detailed inputs from the WB team are outlined below:

- a. *Technical and policy inputs.* Technical inputs will be provided in reviewing bidding documents to ensure fair competition, sound technical specifications and assessments, and confirmation that activities are in line with the intended approaches towards export knowledge transfer, training, and research;
- b. *Fiduciary requirements and inputs.* Training will be provided by the WB's financial management and procurement specialists as needed. Financial management and the procurement specialists will be based in the region to provide timely support. Formal supervision of financial management will be carried out quarterly, while procurement supervision will be carried out on a timely basis as required by the needs of the client.

- c. *Safeguards.* Inputs from environment and social specialists and consultants will be provided as needed.
- d. *Operation.* The Task Team will provide day-to-day implementation support of all operational aspects, as well as coordination with the clients and among WB team members. Relevant specialists will be identified as needed.

<i>Time</i>	<i>Focus</i>	<i>Skills Needed</i>	<i>Resource Estimate</i>	<i>Partner Role</i>
First 24 months	Finalization of Technical Specifications/TORs, legal/procurement arrangements	Procurement, legal, and Technical Specialists	Technical staff: 10SW Procurement Specialists 10SW FM Specialist 5SW	Lead in drafting technical specs/TORs
25-54 months	Procurement, contract implementation	Procurement, FM, Technical, Safeguard/Environment Specialists	Technical staff: 12 SWs Procurement, FM, safeguards specialists 10SWs each	Lead procurement and contract implementation

### Skills Mix Required

<i>Skills Needed</i>	<i>Number of Staff Weeks</i>	<i>Number of Trips</i>	<i>Comments</i>
Task team leader	15 SWs annually	Fields trips as required.	DC or Country office based
Procurement	8 SWs annually	Fields trips as required.	Country office based
FM Specialist	5 SWs annually	Fields trips as required.	Country office based
Environment and Social Safeguards Specialists	15 SW annually	Field trips as required.	Country office based
Technical Staff	15 SW annually	Field trips as required.	Globally sourced

### Partners

<i>Name</i>	<i>Institution/Country</i>	<i>Role</i>
TBD.	Representative of Ministry of Finance	Chair of the Project Steering Committee
Batbold	PIU for the MSTAP	Head of PIU
TBD		Chair of MGF Evaluation Team
TBD	PIU at the MOF	Head of MGF team
Enkhtaivan, G.	CEO of AgRe	Head of AGRE team
TBD	MNCCI	Technical counterpart
TBD	BPI/Quality Supplier Development Center	Technical counterpart

3. The ISP will be reviewed at least once a year to ensure that it continues to meet the implementation support needs of the project.



## ANNEX 5. SUMMARY OF THE IMPACT OF MATCHING GRANTS AND VARIOUS TRADE PROMOTION PROGRAMS

Country	Export Promotion Program	Impact	Source
Tunisia	<p><b>FAMEX II:</b></p> <ul style="list-style-type: none"> <li>• Matching grants: more than 1,000 firms received grants from the export promotion agency covering 50% of cost of export development plans proposed by eligible firms</li> <li>• Eligibility threshold: minimum \$140,000 in turnover for manufacturing firms and minimum \$70,000 for service firms</li> </ul>	<ul style="list-style-type: none"> <li>• Annual growth rate of <i>export values</i> during the 2004-2008 period is approximately 38.9% higher for FAMEX II firms than for the control group</li> <li>• Estimated annual growth in the <i>number of exported products</i> is 5% higher for FAMEX II participants</li> <li>• Estimated growth in the <i>number of export destination countries</i> is 4.5% higher for FAMEX II participants</li> <li>• Weak impact of FAMEX II on <i>total firm sales and employment</i></li> <li>• <b>Conclusion:</b> <ul style="list-style-type: none"> <li>○ FAMEX II had a disproportionate impact on first-time exporters (i.e. firms that started their exports after receiving FAMEX II assistance)</li> <li>○ Export promotion grants can be effective in promoting exports by service firms.</li> </ul> </li> </ul>	Gourdon et. al, 2011, “ <i>Can Matching Grants Promote Exports? Evidence from Tunisia’s FAMEX II Programme</i> ”
Peru	<p><b>PROMPEX / PROMPERU:</b></p> <ul style="list-style-type: none"> <li>• Export and tourism promotion agency</li> <li>• The export promotion program has a yearly budget of approximately \$5.2M</li> <li>• <b>Main activities and services offered:</b> <ul style="list-style-type: none"> <li>○ Training activities on export process, marketing, business negotiations</li> <li>○ Market intelligence</li> <li>○ Coordination and support in the form of co-financing to firms participating in international trade missions and fairs</li> <li>○ Support and counseling for SMEs</li> <li>○ Activities to promote service trade: software, health, consulting and engineering activities</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Exports growth rate was 17% higher for firms assisted by PROMPEX</li> <li>• Number of destination countries for exports was 7.8% higher for PROMPEX participants</li> <li>• Number of products exported was 9.9% higher for PROMPEX participants</li> <li>• Supported companies would have had a 3.6 percentage points higher growth rate than non-supported companies (given the sample average annual growth rate of the number of products of 36.5%)</li> </ul>	Martincus, Christian Volpe, “ <i>Assessing the Impact of Trade Promotion in Latin America</i> ” (2011) and “ <i>Odyssey in International Markets</i> ” (2010)
Costa Rica	<p><b>PROCOMER:</b></p> <ul style="list-style-type: none"> <li>• Trade promotion agency with a 2007 budget of \$11.8M, allocated as follows: training (3.7%), technical assistance (4.9%), marketing events such as fairs and missions (16.5%), research and</li> </ul>	<ul style="list-style-type: none"> <li>• Firms already exporting only differentiated goods that participated in promotion activities organized by PROCOMER had higher rates of growth of exports (15.3% higher</li> </ul>	Martincus, Christian Volpe, “ <i>Assessing the Impact of Trade Promotion in Latin America</i> ” (2011) and “ <i>Odyssey in</i>

	<p>publications (1.2%), foreign trade offices (15.8%), regional trade offices (0.4%), trade advocacy (22.6%), management of special regimes (4.2%), operational costs and miscellaneous (30.7%)</p> <ul style="list-style-type: none"> <li>• <b>Main activities and services provided:</b> <ul style="list-style-type: none"> <li>○ training programs primarily targeting SMEs (i.e. “Creating exporters”, “Export decision”, “Learning about the market”, “Specialized training” etc.)</li> <li>○ promotional activities such as trade missions to foreign countries</li> <li>○ “Costa Rica provides”: program supporting the creation and strengthening of production linkages between domestic SME suppliers and large exporting firms</li> </ul> </li> </ul>	<p>for assisted firms) and number of destination countries (8.5% higher).</p> <ul style="list-style-type: none"> <li>• Conversely, firms that only exported reference-priced or homogeneous products do not appear to have experiences higher export growth rates due to assistance by PROCOMER</li> </ul>	<p><i>International Markets” (2010)</i></p>
Uruguay	<p><b>URUGUAY XXI:</b></p> <ul style="list-style-type: none"> <li>• Trade and investment promotion agency with an annual budget of \$600K in 2008 (down from \$4M in 1996)</li> <li>• <b>Main activities and services provided:</b> <ul style="list-style-type: none"> <li>○ General and specific information</li> <li>○ Training</li> <li>○ Market intelligence</li> <li>○ Support for participation in international marketing events (covering up to 50% of associated costs)</li> <li>○ Assistance in establishing business contacts abroad</li> <li>○ Special focus on SMEs, though it doesn’t explicitly target specific categories of firms</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Trade support has had a positive and significant impact on the probability of adding a new destination country – by 40% in the case of firms supported by URUGUAY XXI program.</li> <li>• However, export support doesn’t appear to have helped firms access a new OECD country and the positive impact is observed only for Latin American and Caribbean countries.</li> <li>• Export promotion assistance doesn’t appear to have had any impact on the likelihood that a firm would add new products in general, only on differentiated goods (the probability of introducing differentiated goods was 38.2% higher for firms participating in trade promotion programs).</li> </ul>	<p>Martincus, Christian Volpe, “<i>Assessing the Impact of Trade Promotion in Latin America</i>” (2011) and “<i>Odyssey in International Markets</i>” (2010)</p>
Chile	<p><b>PROCHILE:</b></p> <ul style="list-style-type: none"> <li>• Trade promotion agency with a \$33M annual budget, supplemented by loans and technical cooperation funding from international organizations</li> <li>• Budget allocated as follows: specific support services to exporting companies (63%), projects with funds obtained through competition and direct presentation (23%), international marketing events such as trade missions and fairs (13%) and market investigation and publications (1%).</li> </ul>	<ul style="list-style-type: none"> <li>• Trade promotion assistance has had a significant impact on the lower tail of the distribution of export growth rates, in the first to fourth deciles.</li> <li>• Significant effects were observed in both tails of the distribution (first to third and seventh to ninth deciles) in terms of the impact of trade promotion assistance on the growth rate of the number of countries.</li> <li>• Average assistance effect on the</li> </ul>	<p>Martincus, Christian Volpe, “<i>Assessing the Impact of Trade Promotion in Latin America</i>” (2011) and “<i>Odyssey in International Markets</i>” (2010)”</p>

	<ul style="list-style-type: none"> <li>• <b>Main activities and services provided:</b> <ul style="list-style-type: none"> <li>○ Promotion activities to increase the number of exporting firms (especially SMEs), helping these firms stay active as exporters, expanding the number of countries reached by Chilean firms and improving the country's image abroad via direct assistance and funding</li> <li>○ Specialized information and technical advice on international markets and particular products</li> <li>○ Training activities</li> <li>○ Organization and assistance to participate in missions and fairs</li> <li>○ Financial support to export initiatives under copayment schemes</li> <li>○ Inter-firm coaching by experience executives to firms that are new to exporting</li> <li>○ Special programs targeted to SMEs such as Pymexporta</li> <li>○ Administration of a farming-forestry fund with resources from the Ministry of Agriculture, with the fund covering up to 50% of the selected projects' costs</li> </ul> </li> </ul>	<p>number of products was virtually zero, but significant positive effects were identified at the lower and upper ends of the distribution (second to third, and seventh to eighth deciles)</p> <ul style="list-style-type: none"> <li>• Smaller exporters benefited proportionally more from trade promotion activities than large exporters</li> </ul>	
Argentina	<p><b>EXPORTAR:</b></p> <ul style="list-style-type: none"> <li>• Private foundation focused on export promotion activities, with a \$4.5M budget in 2008, distributed as follows: operational costs (10%), marketing and other specific promotional actions such as missions and fairs (78%), support services to exporters, such as training and technical assistance (13%), and market research and publications (9%).</li> <li>• <b>Main activities and services provided:</b> <ul style="list-style-type: none"> <li>○ Training activities to increase firms' familiarity with the export process and with international marketing events such as trade fairs and missions</li> <li>○ Market intelligence activities, including preparing reports and specific profiles and certain sectors / countries</li> <li>○ International marketing initiatives, coordinating the participation of Argentine firms in fairs, as well as incoming missions of buyers</li> <li>○ Establishment of exported</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• The export promotion programs administered by EXPORTAR had a stronger positive impact on total exports and the number of destination countries for small and medium-sized firms (as defined by the number of employees).</li> <li>• Small firms participating in these programs experienced growth rates of exports of 13.9% and of the number of destination markets of 18.5% higher.</li> <li>• Medium-sized firms participating in these programs experienced growth rates of exports of 28.7% and of the number of destination markets of 26.4% higher.</li> <li>• For large firms, no significant impacts on exports have been observed as a result of export promotion programs</li> </ul>	<p>Martincus, Christian Volpe, 2010, <i>"Assessing the Impact of Trade Promotion in Latin America"</i> (2011) and <i>"Odyssey in International Markets"</i></p>

	<p>consortia – a group of mostly SMEs working within the same areas of activities and which join in overseas activities – which gets both technical assistance and partial financing from EXPORTAR and Standard Bank Foundation</p> <ul style="list-style-type: none"> <li>○ Development of sectoral promotion programs in which it helps firms in formulating strategic marketing plans and implementing them with specific promotional activities</li> </ul>		
Colombia	<p><b>PROEXPORT:</b></p> <ul style="list-style-type: none"> <li>● Export promotion agency with an annual budget of \$55M</li> <li>● <b>Main activities and services provided:</b> <ul style="list-style-type: none"> <li>○ Providing exporting or potential exporting firms with information on foreign markets, both overall and for specific products</li> <li>○ Training on export procedures, technical obstacles to trade and transport and marketing logistics</li> <li>○ Support to obtain international quality certification</li> <li>○ Support with firms’ participation in international trade missions and fairs</li> <li>○ <i>Zeiky program</i>: aims to provide firms with information and counseling on exporting through online means, one-day training workshops, and personalized attention by specialized counselors</li> <li>○ <i>Expopyme program</i>: provides export training and assistance in developing export plans for SMEs</li> <li>○ <i>Exporters Plan program</i>: assists companies in formulating and executing these export plans</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>● A combination of the three basic services part of export promotion programs – counseling, missions and fairs, and trade agenda – have significantly better export outcomes than in the case of non-assistance or each of these services taken individually.</li> <li>● For firms combining these three services, the average growth rate of exports was 17.7% higher, the number of countries 11.7% higher, and the number of products was on average 11% higher.</li> </ul>	<p>Martincus, Christian Volpe, 2010, <i>“Assessing the Impact of Trade Promotion in Latin America”</i> (2011) and <i>“Odyssey in International Markets”</i></p>
Belgium	<p><b>Brussels Invest &amp; Export Flanders Investment and Trade:</b></p> <ul style="list-style-type: none"> <li>● Regional promotion agencies</li> <li>● Various export promotion activities such as communication support, meetings with an attaché etc.</li> </ul>	<ul style="list-style-type: none"> <li>● Firms that receive export promotion – regardless of the type of service – benefit mainly in the first year after receiving assistance, with some firms only after two years (i.e. there is a lag after which benefits of export promotion activities kick in).</li> <li>● For a certain type of export</li> </ul>	<p>Schminke, Annette D. and Johannes Van Biesebroeck, 2012, <i>“Smoothing Out the Bumpy Road to Export Success: Evaluating Export Promotion Activities in</i></p>

		<p>support – i.e. action &amp; communication support – the effect of only arises after two years.</p> <ul style="list-style-type: none"> <li>• Export promotion seems to have the biggest impact for small firms, whose growth rate in exports is estimated at 30 percent as a result of receiving export promotion assistance, relative to 25 percent growth rate in export for all firms and all Belgium that received export promotion assistance.</li> </ul>	<i>Belgium”.</i>
Austria	<p><b>Austrian Public Export Credit Agency:</b></p> <ul style="list-style-type: none"> <li>• Provides export credit guarantees to Austrian firms</li> </ul>	<ul style="list-style-type: none"> <li>• The impact of export credit guarantees on exports has been found relatively small in the long run and takes a long period to materialize</li> </ul>	Egger, Peter and Thomas Url, 2006, “ <i>Public Export Credit Guarantees and Foreign Trade Structure: Evidence from Austria</i> ”, <i>The World Economy</i> , Vol 29, no 4, pp 399-418.
Germany	<p><b>Hermes Guarantees:</b></p> <ul style="list-style-type: none"> <li>• Public export guarantees available to German firms</li> </ul>	<ul style="list-style-type: none"> <li>• Hermes guarantees have been found to have a positive and statistically significant impact on exports by mitigating political risk, which is an important determinant of exports.</li> </ul>	Moser, Christof, Thorsten Nestmann and Michael Wedow, 2006, ‘ <i>Political Risk and Export Promotion: Evidence from Germany</i> ’, <i>Discussion Paper Series 1: Economic Studies</i> , 36/2006, Deutsche Bundesbank, Frankfurt am Main.
Australia	<p><b>Export Finance Insurance Corporation:</b></p> <ul style="list-style-type: none"> <li>• The financial arm of Austrade (Australian Department of Foreign Affairs and Trade)</li> <li>• Supports Australian SMEs with products such as export credit insurance, political risk insurance, fixed interest rate finance scheme for</li> </ul>	<ul style="list-style-type: none"> <li>• Between 1992 and 2002, firms participating in Export Finance Insurance Corporation various programs, have experience gradual, but substantial increases in their exports.</li> </ul>	Molnar, Krisztina, 2003, “ <i>Impacts of Globalisation on Australian Policy: Changes in Government Promotion Policy</i> ”.

	foreign buyers of Australian products and direct or indirect credit provision to buyers.		<i>Australasian Political Studies Association Conference, University of Tasmania, Hobart.</i>
Malaysia	<p><b>Export Import Bank of Malaysia</b></p> <ul style="list-style-type: none"> <li>• Offers Malaysian SMEs various incentives to stimulate exports</li> <li>• <b>Main activities and services provided:</b> <ul style="list-style-type: none"> <li>○ bank letter of credit and policy</li> <li>○ buyer and supplier credit facility</li> <li>○ overseas project financing facility</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Entrepreneurs surveyed have agreed that most of the instruments provided by the EXIM Bank of Malaysia played a positive role in increasing their exports, though the precise effect has been difficult to quantify due to data limitations</li> </ul>	Hashim, Mohd K and Romle Hassan, 2008, "Internationalisation of SMEs: Options, Incentives, Problems and Business Strategy" <i>Malaysian Management Review</i> , Vol 43, no 1, pp 63-76.

## ANNEX 6: SUMMARY OF INSTITUTIONAL ASSESSMENT: AGRE

1. Due diligence was performed on AgRe during project preparation. AgRe was assessed on legal framework, corporate governance, financial management, risk management, and staff qualifications. Overall assessment was favorable, but practices have to be improved especially in the areas of corporate governance, risk management and transparency.
2. The governance of the AgRe consists of the following key elements:
  - AgRe is 100 percent state-owned company with the ownership right exercised by the MOF
  - The Minister of Finance has the power of the shareholders meeting.
  - AgRe's Supervisory Board is appointed by the Minister of Finance and consists of 12 Directors, o/w 4 are independent members and shall be appointed in accordance of the Company Law. The Board tenure is one year and members can be re-appointed.
  - Based on the Company Charter, the Board of Directors has powers to select, through an open selection process, and change the Company's CEO and define his/her exercising power.
  - AgRe is registered as a closed Joint Stock Company and is the only re-insurance company in Mongolia.
  - AgRe is established within the framework of the IBLI Law (approved by the Government on June 13, 2014) and its mandate to undertake agricultural reinsurance activities is based on the Agricultural Reinsurance Company Charter.
  - AgRe is licensed by the Federal Regulatory Commission (FRC) as for-profit under the Law on Insurance and it also has to comply with the Company Law.
  - AgRe is supervised by the FRC, which has conducted off-site inspections on AgRe, and also reports to the MOF.
  - AgRe's role is to ensure continuity of the provision of the Index-Based Livestock Insurance in Mongolia that was developed and implemented under the IBLIP, supported by the WB since 2005.
  - AgRe is also authorized to establish the re-insurance market in Mongolia and offer livestock, crop, property and casualty reinsurance products. The crop insurance product pilot was launched recently and AgRe has issued one property reinsurance contract.
3. AgRe is state-owned company and has to work within the parameters set by its shareholders, i.e. the MOF. Similarly to many other SOEs, it has a governance structure that gives rise to risks of political influence on its decision making process. The legal framework for AgRe is comprehensive but must be harmonized and enhanced, especially in the areas of corporate governance. A corporate governance training for the Board of Directors and management should be considered.
4. AgRe IFRS financial statements are audited by independent external auditors: 2015 statements by Niislel Audit LLC, which is a local auditing firm. While in compliance with the Company Charter, this violates para 24.1 of the IBLI Law which requires audit

by an internationally recognized firm. Auditors' reports are presented to the MOF, FRC, and publicly disclosed at the company's website. As a SOE, AgRe can also be audited by the State Audit Committee, and also the Internal Control Department of the MOF has the authority to inspect AgRe. AgRe reports quarterly to the MOF's General Accounting and Auditing Department and to the FRC, these reports are not publicly disclosed. AgRe should comply with the IBLI Law and hire internationally recognized firms for its annual audits through an open process. Also, AgRe should start disclosing quarterly reports. AgRe has agreed to initiate the consistency of the legislation, and going forward will use only internationally recognized auditors. AgRe is also working on developing its website and all his financial statements will be disclosed there.

5. AgRe has established an internal control function – internal control officer (ICO) – that is appointed by the Board and reports directly to the Chairman of the Audit Committee. The ICO's function is to examine both the adequacy of the procedures and AgRe staff's compliance with the established policies and procedures. ICOs powers include inspection of financial activities, conducting regular and surprise audits, and examining financial statements and seeking clarification on related matters. The ICOs skills and qualifications in all these areas should be further strengthened.
6. Adequate financial management controls are in place but financial management policies and procedures should be refined to allocate responsibilities more clearly. Risk management practices should be better defined and capabilities increased: a risk management manual should be drafted and the training of and hiring qualified staff in this area needs to be enhanced.
7. Currently AgRe runs its operations with four departments – Department of Reinsurance, Department of Business Development and Projects, Department of Asset Management, Indemnity and Department of Finance and Administration. In 2015, the sale season for IBLI ran from April 15th until July 15th in 21 provinces, 330 soums level. During this sales season, 10,317 herders with 2.7 million livestock were insured, with a total premium of MNT 1.301 billion, and a total liability of MNT 27.7 billion. At the end of 2015, AgRe's assets amounted to MNT 26.1 bn (equivalent to USD12.8 mn) and its net profit was MNT 2.1 bn.
8. AgRe has 38 staff onboard, and some of them have significant knowledge on insurance laws and regulations, and experience of IBLI and the World Bank project management, as well as of private sector and international work experience. There is a great interest for additional training as well as in obtaining new skills in the areas of export finance.

The WB team will work closely with AgRe in the framework of the EDP and will support its management and staff through WB statutory implementation support efforts, twinning programs, project management capacity training, administration and general management training.



## ANNEX 7: PROJECT ORGANIZATIONAL CHART

