Project Information Document/ Integrated Safeguards Data Sheet (PID/ISDS)

Concept Stage | Date Prepared/Updated: 06-Feb-2017 | Report No: PIDISDSC20207

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Parent Project ID (if any)	Project Name
Mongolia	P161048		Mongolia Multi-Sectoral Technical Assistance Loan 2 (P161048)
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
EAST ASIA AND PACIFIC	Mar 06, 2017	May 25, 2017	Governance
Lending Instrument	**Borrower(s)**	**Implementing Agency**	
Investment Project Financing	Ministry of Finance	Ministry of Finance	

Proposed Development Objective(s)

The Project Development Objective is to contribute to the Government of Mongolia's efforts to improve the quality of expenditure management by: (i) providing technical assistance to strengthen key macroeconomic, fiscal and financial sector functions; (ii) supporting the implementation of reforms in key public financial, procurement and investment management operations; and (iii) providing technical advice to enhance the quality of services delivered through the social protection sector.

Financing (in USD Million)

Financing Source	Amount
International Development Association (IDA)	12.00
Total Project Cost	**12.00**

Environmental Assessment Category	Concept Review Decision
C-Not Required	Track I-The review did authorize the preparation to continue

Have the Safeguards oversight and clearance functions been transferred to the Practice Manager? (Will not be disclosed)

Yes

Other Decision (as needed)

B. Introduction and Context

Country Context

1. **Mongolia's economy faces severe short term challenges due to fiscal and external vulnerabilities.** Mongolia was the world's fastest growing economy in 2011, when an investment and mining boom was underway. The economy underwent sharp adjustments in recent years amid collapsing Foreign Direct Investment (FDI) and the fall in mineral prices. While the country's economic prospects remain promising over the medium to long term given its natural resource wealth and recommencement of major mining projects, sharply deteriorating fiscal sustainability and escalating external risks are posing short-term challenges to the economy. The economy has contracted by 1.6 percent in the first nine months of 2016. While revamped foreign capital inflows and improved investor sentiment are expected to support the gradual recovery of the economy from 2017, the economy is likely to stay under pressure from weak external environment, inevitable strong fiscal consolidation, and large external debt repayments. The fiscal accounts are under severe pressure, due to persistent budget deficits and a rapid build-up of government debt. The country faces significant external debt service in the coming years, posing increasing external liquidity risks. The banking system has been experience a severe credit boom-bust cycle in the aftermath of massive quantitative easing driven by direct liquidity injection of the central bank in 2013-14, with deteriorating asset quality. In the meantime, significant achievement in poverty reduction in recent years are likely to be undermined by the expected continued economic difficulties.

2. **Strong policy reforms are needed to address macroeconomic imbalances, which otherwise would come at even higher adjustment costs, while improving protection of the poor.** Fiscal and public finance management framework needs to be significantly strengthened. Fiscal policy has been significantly loose in recent years, particularly in 2016, requiring substantial adjustment in expenditure and revenue mobilization and fully integrating off-budget expenditures into the budget. Monetary policy needs to be recalibrated toward price stability and should be disengaged from quasi-fiscal activities, with more transparent and accountable monetary policy management and operation. To support more broad-based and sustainable growth and development, strengthening the resiliency of the financial system is an important task, by strengthening the prudential regulation and supervision by the central bank and improving the financial safety net. Continued economic difficulties underscores the importance of strengthening the social safety net in the fiscal adjustment context, by strengthen poverty-targeting of social welfare system and improving fiscal sustainability of pension system.

Sectoral and Institutional Context

Macro-Fiscal management

3. **Improvements in in-house macroeconomic modeling capacity and use of latest econometric approaches to produce consistent and realistic economic projections are key conditions to inform budget parameters, as well as to set the basis for a reliable budget preparation process.** However, fiscal planning has not been effectively adhering to the deficit and debt ceilings included in the Fiscal Stability Law (FSL), nor have realistic revenue projections been available. Fiscal policy has been also undermined by the weak credibility of fiscal planning due to prevailing optimism

bias in revenue projections, lack of fiscal buffers that could be secured by saving excess natural resource revenues, and weak tax policy and administration. Finally, the Ministry of Finance (MOF) faces the challenge of strengthening its debt management capacity, diversifying its borrowing sources, and developing debt re-financing options.

4. **The Medium Term Fiscal Framework (MTFF) is not achieving its objective of providing a hard budget constraint.** MTFF coverage is limited because it does not include extra-budgetary expenditures. In addition, forecasting of the main fiscal aggregates can be further improved, and the links between subsequent MTFFs and between the MTFF and the annual budget are weak. Planning documents produced by several central government agencies are not reconciled with the MTFF; are not formulated within a realistic fiscal envelope; and do not include reasonable costing of investments and recurrent expenditures. The growth in nominal capital repair expenditures, which includes both periodic maintenance and rehabilitation, has been significantly below the trend of growth in new investments. These weaknesses hurt allocative efficiency, compromising the strategic allocation of resources.

5. **Mongolia's government debt increased almost fivefold over the last four years and contingent liabilities are not under proper control.** The GDP ratio of government debt, including the explicit debt and government guarantees—is estimated to have reached close to 90 percent of GDP in 201`6. Despite the high debt load and large external debt repayment schedules, Mongolia's Medium-Term Debt Management Strategy (MTDS)—a key government strategy to improve the risk profile of debt and to help prepare the government's financing plan—is not sufficiently aligned with the Medium-Term Fiscal Framework (MTFF), lacking the baseline projections for key fiscal, monetary and external policy variables. This leads to lack of proper assessments on annual gross financing needs and alternative debt management strategies. More transparent and regular reporting of government debt is needed, as required by the Debt Management Law.

Financial Sector

6. **The Mongolian financial system is dominated by the banking sector, which is adjusting to the withdrawal of the massive monetary stimulus of 2013-2014 and remains vulnerable to further deterioration in macroeconomic conditions.** Banks account for about 96 percent of total financial system assets. They are highly concentrated and competition remains limited, with the top 3 banks accounting for 67 percent of total financial system assets, and the top 5 banks for more than 80 percent of total assets. The rapid credit growth of the past years, tight liquidity, as well as increasing non-performing loans (NPLs) have increased the fragility of the banking sector, and developments in the mining and construction sectors carry significant risks for further deterioration and impairment of loans. While the reported NPLs increased from 3 percent in 2014 to 4.8 percent of total loans in April 2016, the actual NPLs figure is likely to be higher given the inadequate classification of restructured loans by some banks. The level of past-due loans has also increased sharply (tripled), due to weak macroeconomic conditions. These weaknesses were also reflected in the downgrading of Mongolia sovereign and bank ratings in 2015.

7. **The various efforts to deepen capital markets in Mongolia are still in progress and far from completion, hampered by weaknesses in the regulatory framework as well as in institutional capacity.** Progress in the development of non-bank financial institutions (NBFI) is slow, and continuous effort is needed to build appropriate institutions, policies and oversight arrangements. The Financial Regulatory Commission (FRC), a supervisor of both NBFIs and capital markets, faces significant challenges to fill the gaps in the legal framework and strengthen the regulatory, supervisory, governance, internal control, and accounting and auditing frameworks. The Mongolia Multi-Sectoral Technical

Assistance Loan Project (P119825) or MSTAP I, has strengthened the institutional capacity of the MOF to improve the legal and regulatory framework for the financial sector in line with international good practices, and to monitor the financial sector risks and take prompt corrective actions, as needed, among others. However, pending challenges include enhancing MOF's capacity for financial policy making and management; financial sector infrastructure development, and effective management of state-owned financial institutions, including the DBM.

Public Financial Management

8. **The Government of Mongolia has undertaken important reforms to gradually develop a Public Financial Management (PFM) system.** The first phase of reforms took place between 2003 and 2008 and set in place the basic elements of the system, including strengthening internal controls, cash management, and accounting and reporting. Since 2008 a second phase of reforms included improvements in fiscal policy, budget planning, and decentralization of roles and resources to sub-national governments. During both periods important advancements were made in establishing the foundations of a public financial management framework; including an orderly annual budget process; a fully functional Single Treasury Account; a Government Financial Management Information System (GFMIS); a chart of accounts that complied with International Public Sector Accounting Standards; regular accounts reconciliation; a debt management office within Treasury; and a legal framework for public financial management with regulations included in the Fiscal stability Law 2010, the Budget Law 2010, the Public Procurement Law 2011, the General Taxation Law, the Law on State Audit 2003 and its key amendments of 2013. In some areas, such as transparency and right to information or in monitoring the extractives sector, the Government had passed sweeping legislation. Despite these advances there are still some challenges to improve efficiency, effectiveness and transparency of the PFM and its processes, which may contribute to improve the quality of public expenditures. A recent assessment completed through the "Public Financial Management Performance Report" (PFM-PR) in 2015 as well as recent analysis done through the World Bank "Mongolia Governance and Public Sector Management Analytic Support" identify key challenges and opportunities to improve budget credibility, comprehensiveness, predictability and reporting.

9. **Lack of alignment of expenditure and revenue outputs with the original approved budget, poor quality of cash flow forecast, and predictability in availability of funds have weakened budget credibility which in turn negatively affects the delivery of services.** Aggregate deviations in expenditures averaged 9 percent in 2013-15 which was translated into weak and unpredictable delivery of services in the 20 largest budget heads of the Government, including entities responsible for delivery of education, social welfare, roads, health, and justice services. Revenue outturns deviations have been caused by consistent underestimation of mineral prices during the commodity boom and political pressures for capital expenditures expansion. The quality of the revenue forecasts is compromised by missing data from certain agencies (especially the General Department of Taxation, the Customs Administration, and the Oil and Petroleum Agency) because of difficulties in consolidating information from remote offices across the country. The quality of expenditure forecasts is also poor as they are based on historical approved monthly budget allocations, which are frequently revised based on cash availability and requests from the line ministries. Capital expenditures are particularly volatile because they bear the brunt of the expenditure cuts and therefore the historical data cannot accurately estimate the cash needs of spending agencies. This represents a severe constraint for effective and efficient service delivery. Five or six times each year, the Ministry of Finance makes changes in monthly allocations for the yearly balance based on updated revenue collection and forecasts. Decisions regarding the changes, including amounts and uses, are made within the Ministry and communicated to budget executing agencies with two weeks' notice prior to the start of a

month. Procedures for allocation and reallocation are laid out in the Integrated Budget Law (IBL) and implementing regulations. Even if budget allocations have not been changed, the Ministry often uses non-transparent cash control mechanisms at the end of the year (such as delaying printing of checks) in response to cash flow deficit problems. No limits are placed on commitments. Commitments are not recorded in GFMIS.

10. **Budget comprehensiveness and transparency face challenges due to shortcomings in budget reporting**. Government financial reporting is done using an appropriate accounting framework; the accrual based International Public Sector Accounting Standards (IPSAS), although its implementation is still a work in progress. The government is still in the process of adopting the IPSAS standards as well as writing the supporting implementation guidance. Little formal training has been provided in recent years. Although all central and subnational entities are included in the consolidated financial statements -including SOEs in which the government ownership is 90 percent or more-, some of the largest SOEs are not included as required by IPSAS. Accuracy of budget information and fiscal transparency are compromised by the rapid growth in unreported extra-budgetary financing of public capital projects. These government operations are mainly financed by the DBM, a 100 percent state owned enterprise.

11. **Budget control shows important improvements but there are still some weaknesses in the audit system.** The 2015 PFM-PR review confirmed that solid progress has been made in establishing an internal audit capability within the Government. The Application of the Institute of Internal Auditors (IIA) Internal Audit Maturity Model however, would likely show that the function is still at the first or second level of the four-level internal audit growth curve and much work remains to be done. External audits are important to certify that the government's financial reporting is reliable. However, for their adequate operation they require highly experienced, full time specialists. They are costly and generally not considered a sustainable and appropriate solution for countries such as Mongolia. Recent updates to the Accounting and Audit Laws have given significant audit oversight responsibility to the MOF, which currently has little capacity in this area.

12. **The Mongolian integrated financial management information system (GIFMIS) should be upgraded if, following international experience, it is going to be used to implement the accrual basis**. The Government acquired the FreeBalance software (and currently uses the version 6.5) through a competitive procurement process in 2003. It was installed during the period of 2003-05. The system was designed using the cash basis of accounting with the objectives of controlling cash and budget expenditures. While it successfully met those limited objectives, as the Government's financial management requirements changed over time, including the implementation of accrual basis financial reporting, GFMIS was not modified to meet the new requirements. Instead, the Government installed other non-integrated, stand-alone, fixed asset accounting, procurement, financial reporting and other systems, making it necessary to assess the integration of the systems' different components.

Public Investment Management

13. **Inadequate infrastructure financing has been a considerable bottleneck for Mongolia's economic progress for many years.** The amount of capital expenditure has massively increased, to the extent that nominal investment levels in 2015 were more than 19 times their level in 2000. The share of capital expenditure over the last five years is much higher than the average of other lower-income countries (7-8 percent) and middle-income countries (6.5-7.5

percent). Interestingly, the share supported directly by government has decreased in recent years, whereas DBM's contribution has sharply increased. Volatile and unstable capital expenditure can make public investment projects more uncertain and less effective.

14. **Among the main challenges faced by the Public Investment Management (PIM) functions it is important to highlight:** (i) weaknesses in the implementation of the current legal framework; (ii) unclear division of roles and responsibilities between MOF and sector ministries; (iii) lack of quality in the planning and design phases of investment projects that inhibits the effective screening of projects for strategic relevance; (iv) weak project appraisals that seem to be the consequence of a lack of standard PIM guidelines; (v) whereas there are prioritization criteria per se, the lack of guidelines on how to balance them against each other hinders the execution of a real prioritization exercise; (vi) loose linkage of capital budgeting and PIM planning/appraisal; (vii) beyond technical regulations concerning construction matters and project procurement, there appears to be few specific guidelines issued centrally for monitoring capital projects; (viii) lack of an ex-post evaluation scheme that would otherwise allow better understanding of the efficiency and effectiveness of completed investments; (ix) DBM spending has not been effectively supervised or managed from the wider perspective of the country's fiscal sustainability; (ix) Public-Private Partnerships (PPPs) are managed outside the regular PIM system; (x) the Concession Law (2010) for PPPs is essentially legislation for the tendering process for concession of projects but it does not include broader regulations for the right institutional framework for PPPs, particularly covering both the upstream decision processes for PPP project preparation, appraisal, and selection, and the downstream implementation and fiscal management.

Social Protection

15. **While Mongolia provides generous social benefits, the welfare system does not adequately protect the poor.** Notable progress in establishing a social protection system has been achieved under MSTAP I. With regards to social welfare, a Proxy Means Test (PMT) targeting mechanism was introduced, and an integrated, inter-sectoral database was established and is being piloted to target a subset of welfare benefits. A new welfare administration information system has also been developed and rolled out, and capacity building has been provided accordingly. Hence, the necessary infrastructure for a better targeting of social welfare is in place, but its use is very limited and poverty targeted benefits, as envisioned in the 2012 Social Welfare Law, are not being implemented. Going forward there is need to consolidate existing programs, ensuring fiscal sustainability either through design changes or new poverty targeted benefits and increase the coverage and generosity of poverty-targeted programs

General Conclusions on Sectoral Context

16. **The key challenge faced by the macro-fiscal policy is to contain the large persistent budget deficit, which implies addressing weaknesses in the budget preparation processes (including the management of macro and fiscal variables), weaknesses in budget execution (with better allocative and productive efficiency of expenditures), and budget processing and control, in order to deliver better services with less resources**. To address these challenges several measures are needed including: (i) deepening reforms launched by the MOF to strengthen some of its key functions in the areas of: macro-fiscal policy research, regulation and control, debt and assets management, tax policy, and, fiscal decentralization; (ii) expanding the Bank of Mongolia reforms aimed to strengthen its capacities to regulate the financial sector, as well as putting in place reforms to better management of State-Owned-Enterprises; (iii)

continuation of reforms aimed to strengthen the organization of MOF, the enhancement of public financial, investment and procurement operations and management, and the strengthening of some key ICT systems; and (iv) improving the quality of social welfare expenditures to ensure an adequate protection of the poorest population.

17. Many of the reforms to be supported by this operation have already completed some first-step actions under MSTAP I. These actions have been aimed to set new regulatory frameworks, carry out organizational restructurings, build capacity, or design ICT solutions. MSTAP II seeks to give continuation to these reforms and build on the progress reached at this point, particularly in the case of reforms that will contribute to fiscal consolidation efforts as well as to improve the management of public expenditures and service delivery to the poorest population.

Relationship to CPF

18. The proposed operation is closely aligned with the World Bank Country Partnership Strategy (CPS) for Mongolia for the period FY2013–2017. The proposed operation is in line with multiple pillars of the CPS and their relevant outcomes:

(i) Under Pillar 1 ("Enhance Mongolia's Capacity to Manage the Mining Economy Sustainably and Transparently"), the proposed project would support Outcome 1.2: Supporting a more robust, equitable, and transparent management of public revenues and expenditures;

(ii) Under Pillar 2 (Build a Sustained and Diversified Basis for Economic Growth and Employment in Urban and Rural Areas), the proposed project would support Outcome 2.1: Enhancing the investment climate and financial intermediation; and

(iii) Under Pillar 3 (Address Vulnerabilities through Improved Access to Services and Better Service Delivery, Safety Net Provision and Improved Disaster Risk Management), the proposed project would support Outcome 3.1: Working with the government on the design, adaptation, and implementation of a comprehensive social welfare information system and (Proxy Means Test) database for targeting the poor.

The Performance and Learning Review (PLR) of the CPS concluded earlier in FY16 noted that, since the formulation of the CPS, considerable progress had been achieved on these outcomes on the back of the support provided by the ongoing MSTAP I. On the basis of the review of the country program, the PLR clearly indicated MSTAP II as one of the IDA 17 pipeline projects agreed with the Government that will follow-up to earlier governance and ongoing multi-sector technical assistance projects to enhance government capacity for policy making, regulation, and implementation in the fiscal, social, and financial sectors, as well as for improved governance.

C. Proposed Development Objective(s)

The Project Development Objective is to contribute to the Government of Mongolia's efforts to improve the quality of expenditure management by: (i) providing technical assistance to strengthen key macroeconomic, fiscal and financial sector functions; (ii) supporting the implementation of reforms in key public financial, procurement and investment management operations; and (iii) providing technical advice to enhance the quality of services delivered through the social protection sector.

Key Results (From PCN)

19. **Key results** expected by the closing date are:

- Macroeconomic projection tool is in place and MOF forecasting capacity is enhanced.
- Regulatory framework for establishing an independent policy think-tank is enacted and effective.
- Asset management policy (FHF) is in place.
- Effective implementation of the medium term debt management strategy.
- Budget credibility is strengthened through realistic revenue projections and reduction of deviations among budget out-turns and original budget.
- Contingent liabilities are identified and monitored through the strengthening of capacities for fiscal risk analysis and the establishment of a reporting system.
- Public Investment Management is enhanced through better methodologies for the prioritization and selection of capital expenditures.
- Strengthened policy, legal and regulatory framework for the financial sector, ensuring risk mitigation and financial stability.
- Selected state-owned financial institutions are restructured and/or privatized and their corporate governance and operational effectiveness has improved.
- Increased human resource capacity in selected financial sector regulatory institutions.
- Social welfare benefits are better targeted and pro-poor, and consolidated through the use of the poverty targeting methodology – Proxy-Means Test (PMT).

D. Concept Description

20. **To ensure sustainable and inclusive growth, Mongolia will need to strengthen its institutional capacity to manage public revenues efficiently and to allocate its resources effectively.** The Mongolian economy is facing challenges from persistent economic imbalances stemming from declining exports from a continued weakening of the commodity market, and slower growth in China. Improving the policy environment is now the overriding priority for the government. The key challenge faced by the macro-fiscal policy is to contain the persistent large budget deficit and improve the quality of expenditures, which implies addressing weaknesses in the macro-fiscal management, risks in the financial sector, constraints in the budget preparation and execution processes, as well as improving allocative and productive efficiency in expenditure management to deliver better services and enhance the social welfare system.

21. **To address these challenges the government program proposes to implement the following set of measures**: (i) on macro-fiscal management, deepen reforms launched by the Ministry of Finance (MOF) to strengthen some of its key functions in the areas of: macro-fiscal policy research, regulation and control, debt and assets management, tax policy, and, fiscal de-centralization; (ii) on financial sector stability, expand the Bank of Mongolia reforms aimed to strengthen its capacities to regulate the financial sector as well as putting in place reforms to better manage State-Owned-Enterprises; (iii) on the budget process, continue reforms aimed to strengthen the internal organization of MOF, the enhancement of public financial investment and procurement management, and the strengthening of key ICT systems; (iv) on expenditure management, improve the quality of social welfare expenditures to ensure an adequate protection of the poorest population.

22. **This second Multi-Sectoral Technical Assistance Project (MSTAP II) of US$12.0 million will support policy actions and activities targeted towards key reform areas and organized in 5 components**: 1. Strengthening Macroeconomic and Fiscal management; 2. Enhanced Financial Sector Stability; 3. Efficient Public Financial Management; 4. Consolidation of the Social Welfare System; and 5. Project Management and Monitoring.

Component A: Strengthening Macroeconomic and Fiscal Management (US$ 2 million). The objective of this component is to strengthen overall macroeconomic and fiscal management and implement relevant policy measures towards: a) improving the quality of expenditure management, b) strengthening economic and budget policy making capacity, and c) improving regulatory process. Specifically, technical assistance will be provided in the following areas:

- Enhancing macroeconomic forecasting capacity and fiscal policy research by, among others, developing and adopting a macroeconomic projection tool, and establishing an independent economic and fiscal policy research unit;
- Upgrading debt management through a Medium Term Debt Management Strategy;
- Enhancing asset management by building in-house capacity to formulate and implement the asset management policy through sovereign wealth funds such as Future Heritage Fund (FHF);
- Strengthening tax policy for better revenue mobilization; and
- Enhancing the existing legal framework for fiscal decentralization, its methodology and distribution mechanisms.

Component B: Enhanced Financial Sector Stability (US$ 2 million). The objective of this component is to support the MOF, the BoM, the FRC and DICOM in order to a) consolidate financial stability; b) mitigate risks in the financial sector; and c) promote insurance sector and capital markets development. Technical assistance will be provided to carry out activities including:

- Supporting the Capital Market Development Strategy, including the development and implementation of the financial sector medium-term strategy until 2022;
- Contributing to the effective management of State-Owned-Financial Institutions including the Development Bank of Mongolia (DBM), by improving the legal base and corporate governance of DBM and Mongolian Stock Exchange;
- Strengthening the financial safety nets and financial consumer protection, by reforming the legal environment of the insurance industry and the Deposit Insurance Corporation of Mongolia (DICOM);
- Enhancing resiliency of the Banking System, conducting comprehensive research on the financial crisis management strategies and program development models;
- Strengthening the institutional capacity of the MOF, FRC and DICOM, including upgrading its IT systems; and
- Improving the capacity of the Bank of Mongolia, upgrading IT systems and statistical financial databases.

Component C: Efficient Public Financial Management (US$ 5 million). The objective of this component is to strengthen and improve the country's public financial management (PFM) systems as well as functions and operations of the Ministry of Finance. Activities under this component include:

- Improving budget preparation and planning functions, including budget preparation rules, processes and sup-porting information sources and systems, revenue forecasting methodologies and processes, spending efficiency analysis, and government financial statistics;

- Strengthening Medium Term Fiscal Framework (MTFF) preparation process, management and compliance, including better regulatory framework, coverage, forecasting of fiscal aggregates and alignment of the budget in order to ensure MTFF provides a hard budget constraint;
- Improving budget preparation process to strengthen budget credibility, including regulations and processes to ensure sector preparation of realistic expenditures plans, as well as to support an adequate implementation of the Medium Term Expenditure Framework (MTEF).
- Strengthening accounting and financial reporting;
- Enhancing internal audit control functions (budget control and risk management functions) and strengthening audit oversight capabilities in MOF and other regulatory institutions, in accordance with the 2016 Mongolia Accounting and Audit Laws;
- Strengthening management and operation of the Government's Integrated Financial Information System (GFMIS), cash management and Single Treasury Account operations, by updating to a more advanced version of the FreeBalance software to achieve a full implementation of IPSAS (International Public Sector Accounting Standards);
- Improving public investment policy and management, including the formulation of a PIM strategy and sector planning guidelines, strengthening project appraisal processes and guidelines, enhance the independent assessment of project feasibility, strengthen project prioritization criteria and procedures
- Strengthening public procurement transparency and operation;
- Strengthening MOF organization through the implementation of a Functional Review; and
- Enhancing MOF operations through a Process Re-engineering Program.

Component D: Consolidation of the Social Welfare System (US$ 2.5 million). The objective of this component is to support government efforts to: i) strengthen social welfare program design and operations; ii) strengthen social welfare M&E systems; iii) strengthen the social insurance system by supporting the implementation of measures considered in the state policy on pension reforms (2015-2030) as well as reforms to other social insurance programs; and (iv) strengthen the governance and financial management of social welfare and social insurance programs. Main activities under this component include:

- Strengthening social welfare programs design and operations by conducting of relevant reviews, analysis, aware-ness building and capacity building activities required for consolidation and rationalization of welfare benefits; improving poverty-targeting of the welfare programs; expanding the pro-poor benefits reducing the merit based benefits; and developing and strengthening social welfare services (vs. cash benefits);
- Improving social protection M&E systems and evidence based policy making; and
- Strengthening the Pension System by building the social consensus and technical capacity required for improving governance, accountability and transparency framework for social insurance; expanding the coverage; building in-house pension actuarial capacity and establishing regulatory framework for private voluntary occupational and individual pension arrangements.

Component E: Project Management and monitoring (US$ 0.5 million). This component will support the strengthening of MOF's capacity for Project implementation, monitoring and evaluation, including, audit arrangements, reporting requirements, procurement, disbursement and financial management activities.

23. Implementation arrangements. The Ministry of Finance of Mongolia will be the main executing agency of the Project and will be responsible for its overall management and implementation. The existing Project Management Unit (PMU) in the Ministry of Finance will ensure compliance with the procurement, disbursement, and financial management policies and procedures. Component D "Consolidation of the Social Welfare System" will be implemented by the Ministry of Labor and Social Welfare, however management of project resources will be carried out by the PMU in the MOF.

SAFEGUARDS

A. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

The project is a country level technical assistance. The project area is the whole nation.

B. Borrower's Institutional Capacity for Safeguard Policies

The Ministry of Finance (MOF), Project's main implementing agency, has experience in World Bank lending operations. Also, as the existing PMU responsible for the MSTAPI will continue providing its services to the MSTAP II, this structure has previous knowledge and experience with the World Bank's safeguard policies during project preparation and implementation.

C. Environmental and Social Safeguards Specialists on the Team

Yiren Feng, Erdene Ochir Badarch, Ning Yang, Mauricio Monteiro Vieira

D. Policies that might apply

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	No	The proposed project will support technical assistance and institutional strengthening activities in the areas of macroeconomic, fiscal and financial sector in the country. The proposed project activities focus on improving management of the revenue and budget, the strengthening of capital market, financial sector and social welfare system. There is no civil works or construction activities included in the project. Based on environmental screening per OP4.01, the project will have indirect social benefits, while it is not anticipated to have any environmental safeguard issues. Therefore it is proposed to assign Category C to the project. No environmental assessment instrument needs to be prepared.

Natural Habitats OP/BP 4.04	No	The project is not anticipated to involve any natural habitats. The policy is not triggered.
Forests OP/BP 4.36	No	The project is not anticipated to involve any forest. The policy is not triggered.
Pest Management OP 4.09	No	The project is not anticipated to involve the use or procurement of pesticide. The project is not triggered.
Physical Cultural Resources OP/BP 4.11	No	The project is not anticipated to affect physical cultural resources. The policy is not triggered.
Indigenous Peoples OP/BP 4.10	TBD	Given that some actions of this project consist of the consolidation of the MSTAL I and, specifically, that component D aims to support government efforts to strengthen social welfare program design and operations, it may require an update of the existing Indigenous Peoples Planning Framework (IPPF). It is recommended to verify that the context, the measures planned and the procedures focused on the IP for the MSTAL I are applicable to this new project.
Involuntary Resettlement OP/BP 4.12	No	The project is not anticipated to involve resettlement of population. The policy is not triggered.
Safety of Dams OP/BP 4.37	No	The project is not anticipated to involve any dams. The policy is not triggered.
Projects on International Waterways OP/BP 7.50	No	The project does not involve any international waterways. The policy is not triggered.
Projects in Disputed Areas OP/BP 7.60	No	The project does not involve any disputed areas. The policy is not triggered.

E. Safeguard Preparation Plan

Tentative target date for preparing the Appraisal Stage PID/ISDS

Jan 09, 2017

Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the Appraisal Stage PID/ISDS

December 2016 - January 2017. As this proposed lending operation is a continuation of MSTAL I, it is recommended to revise the existing IPPF using the most recent data, in order to verify if some relevant information, as well as assumptions considered previously, have been significantly changed since the elaboration of the previously mentioned IPPF (this, in part, was based on a social assessment from 2006). For example, the MSTAL I IPPF considered a higher risk of exclusion of the Tsaatan people from the benefit due to the observed practice of having no valid civic registration papers. This maybe no longer be applicable, thanks to the governmental initiative where the Tsaatan people receive monthly social welfare benefit.

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