1. Key development issues and rationale for Bank involvement

Mongolia is one of the fastest growing economies in the world today. Yet, there remain large number of poor and unemployed. A key development challenge is to maintain high GDP growth, and generate jobs and reduce poverty. To this end, reforming the public sector and encouraging the private sector, especially small and medium enterprises, is critical. This requires stronger institutions for public management and a stronger accountability framework for the country to achieve better economic, social and service delivery outcomes. The Government of Mongolia (GOM) has taken a number of positive steps in recent months to address growing concerns over governance, however sustained action will be needed to consolidate progress and to address remaining weaknesses in internal and external government transparency and accountability mechanisms.

The Country Assistance Strategy (CAS) supports three themes: (i) making Government more effective; (ii) enhancing business environment; and (iii) improving public services. The CAS envisages a series of Poverty Reduction Support Credits (PRSC) to support the Government implement its Economic Growth Support and Poverty Reduction Strategy (EGSPRS). To this end, the proposed Governance Assistance Project (GAP) will focus on improving governance in the public sector, and hence pave the way for the series of PRSC operations in FY07 onwards.

GAP would build on the accomplishments of the recently completed projects, including the Bank’s Fiscal Technical Assistance Project and Financial Sector Adjustment Credit, and complement the work currently being undertaken under the Economic Capacity and Technical Assistance Credit and by other donors such as the ADB, Japan, USAID and the IMF TA programs. It will also incorporate some of the key findings of ongoing analytical work such as the Poverty Assessment, Investment Climate Assessment, Mining and Cashmere sector reports.

2. Proposed project development objective(s)

GAP is being designed as an umbrella operation and its main objective is to improve the effectiveness of government operations and services for the public. The focus would be on three critical areas: (i) strengthening fiduciary controls and public procurement; (ii) promoting transparency, disclosure and
accountability and (iii) fostering a climate that minimizes personal interaction between policy enforcer and economic agent.

These development objectives are consistent with the CAS, the EGSPRS, and the Government Action Plan.

3. Preliminary project description

Three components are envisaged for this operation and are as follows:

A. Public Financial Management: In order to strengthen fiduciary controls, the project will; (i) implement a revenue forecasting module and upgrade information systems in GDNT and the customs department; (ii) put in place a public debt management TA focusing on managing contingent liabilities, including controls on managing new debt and on assisting the government to formulate, articulate and communicate to the public the Government’s national debt strategy; (iii) conduct a comprehensive civil service census and provide technical assistance in drafting law and regulations governing contracted out workers; (iv) provide training toward building capacity in auditing and accounting practices.

B. Disclosure, Transparency and Accountability: To promote transparency and accountability in the public sector, the project will work towards disclosing relevant information into the public domain based on a needs assessment (to be conducted by the task team), and assist in implementation of laws that foster accountability. For example, the projects will (i) put in place a framework for timely publication of in-year budget execution reports and facilitate the publication of budget entities level information on requested, appropriated and actual budgets; (ii) assist in implementation of the Anti-Corruption Law\(^1\), possibly by establishing a system for asset and income declaration by public officials; (iii) assist with operationalization of the Anti-Money Laundering Law\(^1\); and (iv) put formal procedures and systems in place to make environmental assessments available online to the general public and institutionalize the process of broad public consultations on those documents and publication of feedback from government on how issues raised during these stakeholder consultations were addressed.

C. Investment Climate: In order to minimize rent-seeking in public-private interaction (e.g. by reducing administrative barriers and red tape, improve rules & regulations, etc.) and strengthen public procurement, the project will (i) conduct a comprehensive review of the inspections regime and address key improvement measures; (ii) streamline and automate key administrative processes in the three main government agencies that serve the private sector—GDNT, Customs Administration and SPIA; (iii) implement an integrated procurement management information system; the idea will be to, where possible, reduce rent-seeking in public-private interaction.

4. Safeguard policies that might apply

This is a technical assistance operation and the actions supported are unlikely to cause any negative impact on the country’s environment, forests and other natural resources.

5. Tentative financing

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<td>IDA Grant</td>
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<tr>
<td><strong>Total</strong></td>
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\(^1\) Based on the promulgation of these 2 laws.
6. **Contact point:**

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