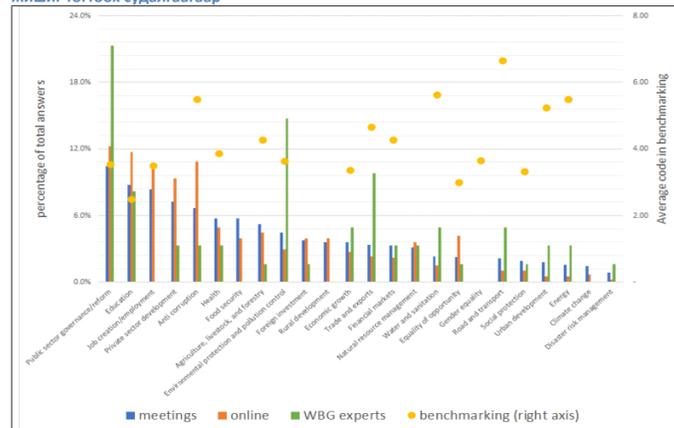


**SUBMISSION
CRITIQUE & COMMENTS
on
WORLD BANK GROUP SCD & CPF DOCUMENTS**

GENERAL CRITIQUE

1. In preparing a country partnership framework, the World Bank first reviews its past performance through a Completion/Performance and Learning Review, then its carries out a diagnostic of the country through a Systematic Country Diagnostic upon which it prepares a draft of a Country Partnership Framework, at each stage engaging in consultations with all stakeholders. In Mongolia however, the WBG initiated a **simultaneous SCD&CPF consultation process** in late 2017 and the Completion and Learning Review is yet to be completed suggests that the WBG is not only in violation with its own policies but the logical sequencing of preparing a CPF is lost. This also suggests that the WBG’s next phase strategy does not see Mongolia’s development needs/interests as a priority but is concerned about WBG’s interest to support investments like the USD 2 billion invested in Oyu Tolgoi (IFC and MIGA lending) and promises to create investor friendly environment for investments in mining and related infrastructure. In selecting priority sectors for engagement it is openly stated that preference was given to recommendations of WBG expert teams. (Graph 23 – green WBG experts priority choice)¹.

Зураг 23: Хөгжлийн тэргүүлэх чиглэлийг эрэмблэх, оролцогч талууд, Дэлхийн банкны шинжээчид болон жишиг тогтоох судалгаагаар



Эх сурвалж: Дэлхийн Банкны ажилтнуудын эмхэтгэл.

2. *The World Bank will continue its support for policy reforms and technical capacity building in these areas. In addition, the World Bank stands ready to provide analysis and advice to the government on issues such as mining regulations, financing arrangements for individual mines, revenue sharing with local governments, environmental protection and mining related infrastructure² is a confirmation of the fact that the WBG has supported development of the financing arrangements of the controversial Oyu Tolgoi Investment Agreement and a lack of change in the position of the Bank regardless of past history of failed WBG/IMF “development assistance” to Mongolia.*

¹ SCD, page 103

² CPF, Para 1, page 6.

3. The Country Partnership Strategy 2013-2017, the Systematic Country Diagnostic includes a significant volume of research data citing more quantitative data than utilizing qualitative conclusions. In addition, in their attempt to enhance positive achievements in Mongolia data is manipulated to speak half-truth (especially in the summary sections) leaving out important information. In particular, on page 27 a positive achievement highlighted states that... *average years of schooling increased in 1.4 years (from 7.7 to 9.1)* leaving out the fact that during the same period Mongolia transitioned from a 10-year secondary schooling system to a 12-year system; and *national income per capita (in 2011 PPP terms) grew at 3.3 percent a year* leaving out the fact that public sector salaries are among lowest with frequent strikes by doctors and teachers since 2015; or *Access to banking services is one of the highest in the world and financing expanded consistently* not mentioning any qualitative assessment of implications, risks of this “extensive resource” on consumer debt of population; it is also surprising to see *...and rural population fell from 42 to 27 percent*³ under successful transition to a market system highlights. Was reduction of rural population a development goal for Mongolia? Was it a World Bank goal? Why migration resulting from poor public services and diminishing livelihood opportunities through loss of access to traditional pasture and water resources in rural Mongolian listed under successful transition rubric?

The Country Partnership Framework for 2020-2024 summary for consultations lacks any information on how results framework will work, indicators to measure attainment of target results or any planning on monitoring compliance of projects with its policies but is full of similar statements like Mongolia has become more democratic listing... *It has held seven legislative elections since, all of which were characterized as free and fair... Freedom of expression in the political and public sphere is high with more than 500 media outlets operating in the country, and there is a growing influence of social media...*⁴ which omit the post-election state of emergency declared in 2008 after shooting at protestors; that freedom of expression is possible within a media outlet owner politician’s permitted space; that civil society activists have been deported and are under surveillance resulting in the diagnostics generally conflicting with existing expert evaluation of Mongolia’s democracy. All of the above leads us to doubt the integrity of evaluation and diagnostics of the country that is to inform the next phase CPF.

4. The Country Partnership Strategy for 2013-2017 with its title “*Mongolia – A Country On The Verge Of An Unprecedented Mineral-Led Transformation*” and critical assumption that “*GDP is expected to grow at a double digit rate over the course of the Country Partnership Strategy (CPS) period*”⁵ and the failure of these expectations to foresee the actual reality of the country coming to a brink of yet another collapse leads us to conclude that this failure might be a result of previous diagnostic having been done in the same manner. Review of these WBG documents leaves doubts that there has been a thorough review of performance of past policies as well. We see the fact of the Completion and Learning Review of CPS for 2013-2017 is being prepared now as a sign of difficulties faced in truthfully reporting successful completion. The WBG has been engaged since 1991 in governance, legal framework for public budget expenditure and financial resource management, public sector capacity building; mining and its infrastructure as economic diversification, legal framework for mineral and tax sectors, support for the development of financing arrangement for Oyu Tolgoi

³ SCD, пара 3, хуудас IX

⁴ CPF, пара 6, хуудас 2

⁵ 2013-2017 оны санхүүгийн жилийн Түншлэлийн стратеги, хуудас i, Пара 1

investment agreement –the stability agreement - all these years and Mongolia’s current situation raises doubts about whether the WBG strategies and programs implemented have ever been effective.

5. In the systematic diagnostic of Mongolia and the development priorities for next phase the following areas have been omitted:
 - Previously failed policy/strategies are being proposed for implementation again. In particular, mineral extraction based economic growth policy has failed to attain expected development results but it is being proposed again with greater focus on supporting mining and its infrastructure under improving competitiveness rubric. Therefore, continued implementation of this policy without an assessment of causes of failure and a study of realistic opportunities for Mongolia’s economic growth is likely to repeat the shortcomings again. The strategies in the CPF are vague, without indicators or planning for measuring implementation and outcome, i.e. an incomplete document is being used for consultations with Mongolian stakeholders.
 - Alternative development model, opportunities have not been studied and/or proposed. The WBG has not included or considered the many studies available worldwide regarding a lack of successful case of economic growth model based solely on mineral extraction and exports. Scholars state (Pegg, 2005) that mining based growth does not reduce poverty and specific preconditions need to be in place for it to reduce poverty. However, the WBG documents are silent on the results its previous policies and programs implemented or what preconditions need to exist for continuing in the same direction. In addition, in the current situation successful implementation of economic diversification opportunities within the minerals based development model are limited for Mongolia.
 - Mongolia is one of 12 countries with commercial loan rate of 20% and higher. High interest rate is one of impediments to economic development. However, the WBG diagnostic report summary mentions under positive developments extensive and open banking services and potential for continued on-lending programs. There is no discussion of outcome of previous on-lending programs or their impact on commercial interest rates, debt burden on companies and citizens.
 - No assessment of outcomes of concessional contracts on the economy, debt situation and general development goals has been carried out. Following the WBG advice a law on concessions was adopted and numerous PPP concessional contracts have been signed amid public criticism of their fairness as well as compliance with Mongolia’s development goals.
6. The WBG Country Partnership Framework is silent on the requirement to comply with the principles of Global Partnership for Effective Development Cooperation (GPEDC) i) focus on results; ii) inclusive development partnerships; iii) transparency and accountability to each other; iv) ownership of development priorities by developing countries⁶. It is unfortunate that the GPEDC assessment of Mongolia’s situation in 2015⁷ concluded that almost all targets for the donor cooperation in Mongolia have not been attained as planned. In particular, directing development aid to concrete development results, transparency and accountability of development aid information have failed to show any progress.

⁶ Хөгжлийн Хамтын Ажиллагааны Дэлхийн Түншлэл (Global Partnership for Effective Development Cooperation - GPEDC) үр нөлөөтэй хөгжлийн хамтын ажиллагааны зарчмын хэрэгжилтийг 10 шалгуур үзүүлэлтээр үнэлдэг. Монгол улс 2015 онд 2-р мониторингд оролцсон. Энэ үнэлгээнд Монгол Улсад үйл ажиллагаа явуулдаг 19 олон талт болон хоёр талт хөгжлийн байгууллагууд оролцсон. Энэ жил 3-р мониторинг болж байгаа.

⁷ http://effectivecooperation.org/wp-content/uploads/2016/10/Mongolia_10_10.pdf

7. The WBG CPF sets no target for contributing and aligning its priorities with the principles of CPEDC as well as Global 2030 SDGs to ensure that it contributes to the achievement of these goals. The WBG CPF is silent on its results and indicators framework for period 2020-2024.
8. The CPF lists under its competitiveness in the next 5 years discussion cashmere, meat, tourism as sectors with potential. However, it omits the fact that these were core competitiveness sectors under the USAID Gobi Initiative and Competitiveness Initiative⁸ and have set ground for current achievements in these sectors. They have unfortunately been terminated based on the decision to diversify economy to minerals extraction based economic growth. In this context, when a WBG documents discusses “competitiveness, economic diversification, infrastructure development” these mean support to extractive industry.

COMMENT, RECOMMENDATIONS

Two. Governance

9. It is positive that the WBG CPF selected *Improving Governance* as a core priority. However, every citizen, including a newborn infant, of Mongolia carried a 6.6 million MNT debt or if an average family has 4 members –then each family has a 26 million MNT debt to pay. Any debt program implemented under a poor governance structure will only add to debt. Since the 2020-2024 CPF does not propose an alternative development policy and strategy, **it is therefore, recommended** that the WBG concentrate only on Improving Governance without indebting the country further with lending for programs targeted under Increasing Competitiveness.
10. Paragraph 22 of the CPF mentions attraction of private sector finance as key focus of WBG’s Maximizing Financing for Development (MFD) program. Private sector in Mongolia faces significant critique in the UN Universal Periodic Review reports as not being compliant with the human rights protection standards.⁹ Basing on a statement in “Why Public-Private Partnerships Don’t Work?”¹⁰ *“PPPs are used to conceal public borrowing, while providing long-term state guarantees for profits to private companies. Private sector corporations must maximise profits if they are to survive. This is fundamentally incompatible with protecting the environment and ensuring universal access to quality public services...”* **it is recommended** that the WBG as the financier of MFD makes an effort to monitor compliance with its own policy requirements governing information disclosure, procurement and environmental and social protection standards, which has not been the case to date in Mongolia.
11. Para 19 of the CPF mentions that efforts have been made to strengthen legal framework for greater public participation with little change in public participation in decision-making. The SDC concludes the reasons for *weak economic diversification...unsustainable current account and budget deficits, are due to a lack of policy enforcement; stressing that capable public service, capable private sector and disciplined politicians and civil society are important and improved cooperation among these can achieve enforcement of laws and policies to bring economic reform*¹¹. It unfortunately fails to propose new strategies for eliminating above gaps. While it concludes that laws and procedures alone without effective civic participation do not improve public sector governance it fails to articulate any

⁸ <https://www.nathaninc.com/mongolia-competitiveness/>

⁹ Оюу Толгойн Хяналт ТББ, Хүний эрх хөгжил төв, Хил хязгааргүй алхам, Байгаль орчны төлөө хуульчдын холбоо ТББ. Уул уурхай-Байгаль орчин- Хүний эрх. <http://upr-mongolia.mn/images/xupld/MiningUPRII.pdf>

¹⁰ http://www.world-psi.org/sites/default/files/rapport_eng_56pages_a4_lr.pdf

¹¹ Цогц дүн шинжилгээ, пара 22

measures for improvement of civil society participation and capacity. Generally, the WBG treats civil society as IMPLEMENTER and thus does not include civil society in development policy research, analysis and consultations. Therefore, **it is recommended** to consider support a favorable legal framework for development of civil society, environment conducive for independent, effective and equal participation of civic actors as an important part of improving governance in Mongolia.

Three. INFRASTRUCTURE

12. The WBG will support infrastructure investments based on volumes of research showing lack of infrastructure necessary for increasing competitiveness in attracting private finance for infrastructure, regional transport corridors, BRI and other initiatives to be informed by mining deposit locations¹² attracting for this Objective 2.3 Supporting Infrastructure Investments private finance through PPPs which has potential to significantly increase the country debt. It is recommended that this objective is supported by an evaluation of cost effectiveness, cost and benefit analysis of previous transport corridor roads connecting Russia and China to show how these have contributed to the increase of trade and transport movement between the two neighbors and how it benefitted Mongolia. At the time of promoting the Altanbulag - Zamun-Uud road financed by ADB it promised to increase substantially trade transport between RF and PRC. In reality, two years after the construction of the road it still counted 60 vehicles per day (same number traveled on old improved road) during busy season with no trade transport at all. There is some trucking of domestic goods and services but the questions of cost and benefit remains. Parts of the Western vertical corridor¹³ were built since 2012 but a five (5) hour drive on the in October 2018 counted only 6 sedans with no trade transport of any kind on the Hovd-Uvs section of this corridor.



Therefore **it is recommended** that 1) A public and private debt risk analysis be carried out before a PPPs financed mega projects are approved; 2) an evaluation of cost effectiveness, cost and benefit analysis of previous transport corridor roads: Altanbulag - Zamyn-Uud, Western vertical corridor roads; 3) Disclosure of WBG research justifying its involvement in the transport infrastructure sector and broad consultations approval granted; 4) Refrain from debt financing infrastructure for support of private gain at the cost of public debt.

¹² SCD, pp 19-22

¹³ <http://mrt.d.gov.mn/single/175>

Four. ENERGY

13. *CPF, Para 30: Mongolia's energy sector is also facing serious challenges in providing reliable and sustainable energy (electricity and heat) supply. ... To meet growing demand, electricity and district heating networks will need additional generation capacity as well as network upgrades* ... appears to be implying support to implementation of Mid-term Plan for the implementation of Energy Sector Strategy, which if implemented will significantly increase Ulaanbaatar GHGe through additional generation capacity and network upgrades¹⁴. **It is recommended** that 1) Refrain from any support to coal based power and heat generation until an assessment of potential impact on human health and risk to health related SDGs through increased GHGs and PMs are done before energy and infrastructure projects supporting urban migration are selected for WBG debt financing; 2) Support wind and solar energy capacity through a) ensuring that subsidized low cost of power generated by CHPs include cost of clean air projects to bring it to a more realistic cost; and b) assist with framework to allow better feed-in-tariff system that will support wind and solar generation. 3) Instead of supporting power and heating supply to growing housing construction and unsustainable urbanization, assist GoM with solutions for decentralizing Ulaanbaatar. There is enough research pointing out that further growth of Ulaanbaatar is not sustainable due to a lack of carrying capacity of water and land resources and inability to address effectively pollution problems.
14. Para 31 ***The WBG will support infrastructure development with a focus on transport and energy. The WBG is currently conducting an infrastructure sector assessment (InfraSAP) of Mongolia's regional corridors (rail, road, ICT and energy) to identify infrastructure gaps and help design an institutional framework to implement regional connectivity projects. Where regional corridors correspond with mineral resources, opportunities will be identified to leverage mine and mineral processing investments that can serve as anchor customers for more reliable energy and transportation services.*** The CPF is silent on how existing Mining Infrastructure Investment Support (MINIS) project which supported coal mine expansion, coal-to-gas and hydro-power generation project feasibility studies. Supporting coal extraction and use in violation of its international climate commitments or hydro-power generation with potential political crisis with RF will lead to increased risks as identified in Para 50 **Other substantial risks include environmental and social safeguards.** Especially in the context of mining related and other infrastructure projects, there have been some complaints from affected communities about potential adverse social and economic impacts¹⁵. **It is recommended** that 1) WBG assess its technical and debt support in terms of potential conflict with its own as well as Mongolia's climate and SDGs commitments; 2) Basing on the fact that the CPF plans to engage extensively in male workforce dominated mining, energy and infrastructure projects with high risk to safety and security of women and girls include a special focus project on enforcement of gender policies and protections;

Five. DEBT

15. While numerous times when Mongolia fell under IMF receivership are mentioned in the SCD and CPF documents there is no assessment and conclusions drawn on how the 2020-2024 CPF program will improve the indebted situation of Mongolia.

¹⁴ Annex 1 – Calculation of GHGs for Mid-term Energy Plan.

¹⁵ CPF, page 19

16. The Performance (Completion) and Learning Review not being disclosed it is difficult to see what is the justification for continuing in the next five years with the same course of action that has not led effective development results, has not reduced poverty. It is not clear from the proposed CPF how this same course of action will lead to reducing poverty and improving livelihoods in Mongolia. The reported current poverty rate of 29% while doubted by most is still high by any standard. The discussion that poverty rates are lowered using statistical methods or changing statistical methods in the past continue to date.
17. It can be seen that World Bank financing policies are geared toward providing various types of loans to mining and expansion of mineral exports which on the other hand increases Mongolia's debt, especially external debt to an unsustainable level. Current present value of public debt is 75% of GDP and has already exceeded the threshold (Ministry of Finance, Mongolia, 2018).
- Total public debt: 21 trillion MNT
Public external debt: 18.3 trillion MNT
Public domestic debt: 2.7 trillion MNT
18. But the most stressful issue here is public external debt which composes 87% of the total. No threshold or any limitations set for external debt in Mongolia. While one may consider domestic currency debt manageable in relative terms, it can't be said the same about external debt whether it's public or private. Mongolia's total external debt already hit 250% of GDP or 28 billion USD (Ministry of Finance, Mongolia, 2018; Mongolbank, 2019)).
19. The government spends a sizable amount or average 15% of fiscal budget for debt service annually and this payment is projected to increase drastically after 2020 and these numbers already indicate risks looming in the future and warn of pre-debt crisis scenario reminiscent of Greece.
20. **Errors in World Bank Debt Policies for Mongolia** Based on World Bank's Country Policy Institutional Assessment (CPIA) evaluation Mongolia has been ranked as "medium policy performer" by both the World Bank and IMF and on this background debt threshold of 40% was set in the Fiscal Stability Law which was the legislative bill recommended and assisted to be passed by the World Bank (Khaltar, 2015).

Table 1: Indicative Policy-Dependent Threshold for External Public Debt

Debt Sustainability Framework: Indicative Policy-Dependent Thresholds (Applicable to public and publicly guaranteed external debt)					
	PV of debt in percent of			Debt service in percent of	
	Export	GDP	Revenue	Export	Revenue
Weak Policy (CPIA<3.25)	100	30	200	15	18
Medium Policy (3.25<CPIA<3.75)	150	40	250	20	20
Strong Policy (CPIA>3.75)	200	50	300	25	22

Source: IMF

21. Article 6.1.4. of Fiscal Stability law set the threshold in present value of public debt for 40% of GDP. Here the problem was that in Fiscal stability law debt threshold was set for public debt not as recommended for External public debt (see table 1). This erroneous implementation of threshold was the cause of several amendments made to the debt threshold in later years and contributed to debt management crisis the country has experienced. Yet, World Bank never realized or admitted its debt

threshold error and continues debt policies based on erroneous data. **It is recommended** that this error be correct at earliest possible opportunity.

22. Looking at bailout record of 6 times by the World Bank and IMF in the past 26 years, Mongolia is doubtful to succeed through World Bank recommended policies unless it can reduce its external debt by significant amount in the coming years. Whatever Mongolia may earn by mineral exports, gold mining and other means, may not go toward reducing poverty or diversifying economy as we wish, but largely will go to servicing ever increasing debt which is the most important issue the World Bank neglected to address as required.
23. **It is recommended that in the next CPF period 2020-2024:** 1) the WBG does not initiate or support any debt financed projects that will have negative impact on public and private debt until effective debt management capacity and legal framework is put in place and is effectively enforced; 2) WBG does not debt finance any programs and projects intended to protect its investments in Oyu Tolgoi and other private sector support projects.

Six. GENDER

CPF, Para 12: *There is also evidence of a high occurrence of domestic violence against women. Recent data shows that 31.2 per cent of ever-partnered women have experienced physical and/or sexual violence in their lifetime.* CPF, Para 43: *The future ASA program will also strive to address some of the data and research gaps which were identified in the SCD, such as data on quality of education, labor markets, gender, and poverty.* CPF, Para 50. **Other substantial risks include environmental and social safeguards.** *Especially in the context of mining related and other infrastructure projects, there have been some complaints from affected communities about potential adverse social and economic impacts. Past experience in the context of the MINIS project has shown that in particular comprehensive consultation with affected communities are key to mitigate environmental and social risks.* The SCD and CPF do not mention at all issues of women affected by mining, energy and infrastructure projects whether it is women employed by these projects, those living in the contaminated environment, affected by involuntary resettlement as well as impacts from male dominated workforce migration concentrating only on the need to ensure consultation with potentially affected communities to mitigate risk of non-compliance with its safeguards policies. Since the WBG CPF is envisioning to into more mining, energy and infrastructure initiatives **it is recommended** that 1) WBG ensure that there is in place a policy on protecting the rights of women to be affected by development projects; 2) Carry out an assessment of impacts on women from its mining, energy and infrastructure project; and 3) Assist Mongolian government in producing a coherent resettlement policy, procedures and standards; 4) Carry out effective capacity building program for all projects on gender policies, on programs for protection of women and girls from impacts of mining, energy and infrastructure projects.

Summary by OT Watch