



PPIAF
Enabling Infrastructure Investment



SUPPORTED BY
WORLD BANK GROUP

OCTOBER 2015



PPIAF Helps the Municipality of Ulaanbaatar Improve its Creditworthiness

The City of Ulaanbaatar (UB) is Mongolia's political, economic and industrial center. It has a population of 1.2 million, accounting for more than 40 percent of the country's population. The rapid urbanization is straining the City's ability to provide services, especially infrastructure. In order to finance the needed expansion of economic infrastructure and improve access to basic local services, the City plans to explore mobilizing resources from capital markets. To aid in this effort, PPIAF, through the Sub-National Technical Assistance (SNTA) Program, supported the City in laying the groundwork to improve its creditworthiness, by improving its financial management practices and enhancing financial transparency.

Mongolia's economy had been propelled by large amounts of foreign direct investment (FDI) and investments in the mining industry. Mongolia is at the threshold of a major transformation, driven by the exploitation of its vast mineral resources—mining now contributes 20 percent of GDP, twice the ratio of a decade ago. Through royalty payments, the mining industry contributed a third of total government receipts, including direct and indirect taxes. However, since 2012, the macro-fiscal environment has shown slowed growth. In 2011, GDP growth stood at 17 percent; since then it has been below that level, dropping to 9.2 percent in 2014. Declining FDI and slow growth have been accompanied by expansionary policies, resulting in a strain on the country's external liquidity position, a central government deficit, and inflation.

As the country's political, economic and industrial center, Ulaanbaatar attracts large numbers of migrants and faces greater demand for infrastructure and service provision than any other city or region. Meanwhile, the Mongolian government has made greater efforts at fiscal de-concentration, giving the City of UB the legal mandate to provide a wide array of public services. The newly approved master plan also calls for extensive investments to address the city's infrastructure deficits. However, the city currently relies heavily

on fiscal transfers from the central government, and even when combined with its own resources, these are not sufficient to implement the plan within the projected timeframe. Nevertheless, there is an indication that the city will be expected to rely less on central government transfers and to increase its own resources.

The city therefore intends to borrow from the capital markets to meet its enormous capital investment financing needs. Since 2012, the newly elected municipal government has provided strong political commitment for laying the groundwork to make the city creditworthy in order to access this financing. This would require improving its financial management practices and enhancing financial transparency.

PPIAF SUPPORT

In 2013, PPIAF provided technical assistance through the SNTA Program to support the City of UB in improving its financial management and budget transparency by carrying out a financial self-assessment and a debt-management assessment. The financial self-assessment aimed to identify the gaps and weaknesses in the city's financial management system, based on international best practices. The assistance also provided guidance on preparing a Capital Investment Plan (CIP) and offering training on financial reporting for the city's budget officers.

PPIAF's assistance produced the following reports;

- **The Ulaanbaatar Financial Self-Assessment:**¹ The city's financial assessment was conducted by a joint UB and World Bank team based on Moody's Regional and Local Government Credit Rating Methodology. The assessment carried out a thorough analysis and evaluation of the local governments' financial position, the local economic and political context, and the national macroeconomic environment. The assessment provided a diagnostic and a set of recommendations for achieving creditworthiness and financial transparency.
- **Preparing for Debt Management in Ulaanbaatar: Issues to Consider:**² A comprehensive debt-management assessment was undertaken and its recommendations summarized.

RESULTS

The financial assessment concluded that the City of UB has a fairly stable financial position, on the basis of a well-diversified economic structure, a historical trend of surplus and cash-flow

liquidity, and fiscal resilience against cyclical macroeconomic factors. However, there is a need for clarity in the current financial reporting systems and debt distress. In order to improve its credit quality, the assessment recommended that the City of UB take the following actions:

- strengthen its capital investment planning and synchronize it with the City's development plan;
- improve its financial reporting system;
- improve its capital asset registry; and
- improve the oversight role of city-owned enterprises and their debts.

The debt-management assessment recommended that the City should establish an effective debt-management framework before any borrowing is considered. Proposed key actions and outputs that the City should consider for prudent debt management include:

- strengthening the regulatory framework, such as for debt limits and loan collateral;
- establishing a debt-management unit;
- formulating a debt-management strategy; and
- preparing procedures for a borrowing process.

OUTCOMES

In parallel with the two assessments, the assistance helped municipality staffers to enhance their understanding of capital investment planning practices, and identify the best approaches for a successful adoption and transition to a new methodology.

As a result of the PPIAF assistance, city officials reached consensus on taking the next steps towards improving the city's financial-management practices. Based on the recommendations of the debt-management assessment, a debt-management unit was established. The city has also incorporated the CIP methodology into its project prioritization process, formed a CIP committee, and issued special procedural regulations on CIP preparation. It also committed to putting in place an improved capital-investment planning process to apply to budgets, starting in 2015.

RELATED ACTIVITIES

2013: EAST ASIA AND PACIFIC: Partnership between PPIAF and WB's Low-Carbon Livable Cities Initiative to support the second City Creditworthiness Academy, \$74,363

¹ <http://documents.worldbank.org/curated/en/2014/04/19774422/mongolia-ulaanbaatar-financial-self-assessment>

² <http://documents.worldbank.org/curated/en/2014/04/19774480/mongolia-preparing-debt-management-ulaanbaatar-issues-consider-mongolia-preparing-debt-management-ulaanbaatar-issues-consider>