



Enabling poor rural people
to overcome poverty

Mongolia

Project for Market and Pasture Management Development

Supervision report

Main report and appendices

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Abbreviations and acronyms

AWPB	Annual Work Plans and Budget
AWS	Automated Weather Station
EGF	Employment Generation Fund
GEF	Global Environmental Facility
GF	Guarantee Fund
GoM	Government of Mongolia
IA	Implementing Agency
IBLI	Index-Based Livestock Insurance
IFAD	International Fund for Agricultural Development
ILO	International Labor Organization
GIZ	German Cooperation Agency
LGF	Loan Guarantee Facility
M&E	Monitoring and Evaluation
MNT	Mongolian Tugrik
MoIA	Ministry of Industry and Agriculture
MoF	Ministry of Finance
MoL	Ministry of Labor
MSRM	Mongolian Society for Range Management
NAMEM	National Agency for Meteorological and Environment Monitoring
NGO	Non-Governmental Organisation
PHG	Pasture Herders' Group
PMPMD	Project for Market and Pasture Management Development
PMU	Project Management Unit
PSC	Project Steering Committee
RIMS	Results and Impact Management System
RFP	Request For Proposal
SBD	Standard Bidding Document
SLA	Subsidiary Loan Agreement
SMEs Dev. Fund	Small and Medium Enterprises Development Fund
SoE	Statement of Expenditure
TWG	Technical Working Group
UMPSC	Union of Mongolian Production and Services Cooperatives
VC	Value Chain
WA	Withdrawal Application

GLOSSARY

Soum	District
Aimag	Province
Bag	Smallest administrative unit
Dzud	Snow storm
Hural	Elected council

A. Introduction¹

1. An IFAD Supervision Mission visited the project from 20th June to 5th July 2013. The main objectives of the supervision mission are to ensure that the development objectives of the projects are being met and to satisfy IFAD's fiduciary responsibilities, with a focus on: (i) assessment of the implementation progress of the project, including assessment of the achievement of outputs by component and outcome as per the logframe of the project; (ii) assistance to identify and remove implementation bottlenecks and constraints; and (iii) agree on a set of actions to be implemented by the project in the next six to twelve months period.

2. An IFAD loan on highly concessional terms of SRD 7.25 million (equivalent to USD 11.5 million) for the Project for Market and Pasture Management Development (PMPM) was approved by the IFAD Executive Board in May 2011 and became effective on 26th August 2011. The Project Completion Date is 30th September 2016 and the Loan Closing Date is 31st March 2017. The goal of the project is to contribute to empower poor rural women and men to achieve higher incomes and sustainable improvements in their livelihoods. The objective of the project is to reduce poverty, improve livelihoods of poor herder and Soum and Aimag centre households in the project area, which is in line with the Mongolian Government's "Mongol Livestock" and "Cooperative Development" programmes. The project target area covers the *aimags* of Huvsgul, Arhangay, Bulgan, Hentii and Gobi-Altai. The total project costs are USD 18.4 million, including the IFAD loan of USD 11.5 million, a GEF/SCCF Grant of USD 1.5 million and government counterpart contribution of USD 0.9 million. The project consists of 3 components: (i) Market Development (value chain development, small enterprise development, loan guarantee schemes); (ii) Pasture Management and climate change adaptation (formation of pasture herder groups, pasture management plans, climate change adaptation); and (iii) Project Management and Policy Support.

3. The mission met and discussed with officials and staff of the project at both the PMU and the Loan Guarantee Facility Unit (LGF) and its implementing partners, including the Ministry of Industry and Agriculture (MoIA), the Ministry of Finance (MoF), the Ministry of Labor (MoL), the Union of Mongolian Production and Service Cooperatives (UMPSC), the Mongolian Society for Range Management (MSRM), commercial banks (Khaan Bank, Savings Bank and Capital Bank), the MoL-monitored Employment Generation Fund (EGF) and SMEs Development Fund (SMEs Dev. F), the JICA-financed Two-Step loan project, the Index-Based Livestock Insurance scheme, the National Agency for Meteorological and Environmental Monitoring, the Procurement Department of MOF. The mission undertook field visits from June 22 to June 30, 2013 to selected *soums* in *aimags* of Gobi Altai, Arhangay and Huvsgul where it met with project-supported beneficiaries, *aimags* and *soums* governors and local authorities, bank branches managers, local facilitators and staff from implementing and partner agencies.

4. The wrap-up meeting was held on July 8th, 2013 chaired by Mr. Togmid Dorjkhand, Director General, Department of Financial Policy and Debt Management of the Ministry of Finance, with participants from MoF, MoIA, MoL, partner commercial banks, UMPSC and MSRM, to discuss the Draft Aide-Mémoire. The Draft Aide-Mémoire, which records the mission's findings and conclusions, was revised during the meeting to reflect the agreements reached and signed. The Aide-Mémoire will be subject to review and approval by the Government of Mongolia and IFAD Management.

5. The mission would like to express its sincere appreciation for the assistance, cooperation and hospitality provided to the mission by all those met in Ulaanbaatar and in the *aimags*.

¹ Mission composition: Mr. Youqiong Wang, Country Programme Manager of IFAD for Mongolia; Mission composition: Mr. Thierry F. Mahieux, Rural Finance and Value Chain Specialist; Ms. Sabine Schmidt, Pasture Management Specialist; Ms. Narangerel, Pasture Management Specialist; Ms. Irene Li, Finance Office, CFS and Mr. Shankar Kutty, Procurement Adviser; APR who both worked in Mongolia from June 29th to July 5th, and Ms. Sunae Kim, Environment and Climate Change Portfolio Officer. Mr. Tawfiq El-Zabri provided the mission with his guidance on M&E and knowledge management from Rome. Mr. Tsetsenbaatar (pasture management and climate change), Ms. Altantsetseg (microfinance and women's groups), Ms. Idermaa (administrative assistant) from the PMPMD PMU, Ms. M. Bayarmaa (LGF Unit Manager) as well as representatives from the Mongolian Society for Range Management (service provider for pasture management component) and the Union of Mongolian Production and Service Cooperatives (service provider for micro enterprise development component) joined the mission during its field visits.

B. Overall assessment of project implementation

6. Overall, the project implementation progress is moderately satisfactory. While activities related to the Pasture Management and Climate Change Component are being implemented according to plan, the implementation of the Market Development component has been blocked by several factors: (i) non-recruitment of the Value Chain Coordinator by the LGF Unit as recommended by the February/March Implementation Support Mission; (ii) late signature of both Subsidiary Loan Agreements and Guarantee Contracts/Agreements with two commercial banks; and (iii) absence of agreement with the governmental funds that will provide the necessary resources under concessional terms to commercial banks for on-lending to project-supported beneficiaries. Consequently, 110 women's groups already formed and trained by the selected NGO have not yet been financed as well as the 60 pasture herders groups supported under the Pasture Management and Climate Change Adaptation component. However, the progress made during the last weeks under the Guarantee Facility and Credit Line sub-components ensures that all financial instruments are now in place to finance/guarantee women's groups, PHGs and other herders' and producers' groups, hence absorbing the delay in the project.

7. Biddings for equipment to be handed over to pasture herders groups are being processed, and some investments have already been partially completed. It is expected that all procurement packages will be completed by the end of 2013. As agreed during the February/March Project Implementation Support mission, a new bidding process has been launched to contract two NGOs responsible for support to activities implemented under both project components. A short-list has been approved by IFAD based on the report from the Evaluation Committee. Bidding for short-listed NGOs will shortly be launched and final selection is expected to be September 1st, 2013 instead of end of June as originally planned. Any further delay will have a negative impact especially on the formation and training of women's groups and support to the herder groups.

8. The PMU reported that the financial delivery rate against the 2013 AWP&B would be around 90/95%, while it currently stands at 26% for both IFAD Loan and GEF Grant. Physical delivery rate against the AWP&B is also expected to be around 90/95% while it currently stands at 31% and 35% for IFAD Loan and GEF Grant respectively. Such expected high delivery rates against the AWP&B should be commendable. However, this financial delivery rate doesn't reflect the absence of credit disbursements for the women's groups and the absence of guarantee issuance by the LGF.

C. Outputs and outcomes

Pasture Management and Climate Change Adaptation.

9. The overall assessment of the performance of the Pasture Management and Climate Change Adaptation component is satisfactory, as the implementation of major activities is largely within schedule while GEF-funded climate change adaptation related activities have commenced. It consists of two sub-components: (a) *Pasture management* to support the establishment of grassroots herder institutions for sustainable pasture management, and (b) *Climate change adaptation* to provide resources for implementation of pasture management plans and measures to increase the capacity and resilience of herders to cope with climate change impacts and manage pastoral risks.

10. As agreed between the Government and IFAD during the February/March 2013 Project Implementation Support mission, the contract of the currently selected NGO (Mongolian Society for Range Management - MSRM) responsible for the implementation of the pasture management and climate change adaptation component has been extended to July 31st, 2013. A new contract will cover the period August 2013 to July 2014, with an option for further annual renewal until September 2016 subject to satisfactory performance. The PMU has launched a Call for Expression of Interest in April 2013 resulting in three short-listed candidacies. Based on the Bidding Evaluation Committee report issued by the PMU and sent to IFAD, IFAD no-objection was granted to two applicants together with the no-objection for the requested technical offer documents. The PMU will now launch the tender, technical offers will be evaluated by the Bidding Committee, no-objection received from IFAD, and the new contract negotiated and signed. The signature is expected to take place by September 1st, 2013.

11. **Pasture management.** The overall assessment of the pasture management sub-component is satisfactory, as the implementation has in general progressed as planned. 60 pasture herder groups (PHGs) have been selected out of a project target of 120 PHGs and are receiving project support in the form of investments, training and cooperation with *soum* authorities on pasture land planning.

12. **Pasture Land Management.** To date, 60 pasture management plans of pasture herder groups (PHGs) have been prepared. Their approval by *soum* parliaments depends on the delineation of groups' boundaries. This determination is being prioritized in the second level of training currently underway (end June 2013) which includes herders from the entire *soum* area (both PMPMD-supported and non-PMPMD-supported PHGs) together with the participation of *soum* government officers (pasture land planning). Herders' groups in project *soums* of 3 *aimags* (Bulgan, Arhangay and Huvsgul) will receive the second level training before the end of 2013. The budget is reportedly considered insufficient to undertake the second stage training in the remaining two project *aimags*. The second level of training also includes pasture management training the modules of which should be reviewed by the relevant agencies and departments. As for the pasture land planning, the pasture management training should be provided to both PMPMD and non-PMPMD-supported PHGs. In order to improve the quality of training provided by the NGO, the mission recommends the PMU to issue: (i) a specific template detailing for each training agenda, number of participants expected, names of the trainer(s), objective and content of the training module to be filled up by the NGO prior to the provision of the training; and (ii) a specific template for the reporting on each training module with mandatory signature of participants and trainers. Furthermore, the new contract to be signed with the selected NGO should also include these two templates as well as financial sanctions in case of non-compliance. In addition, the mission recommends the PMU to organize feed-back focus groups including herders and local officers for each training module. Outcomes of these focus groups should be discussed with the selected NGO.

13. With a view to improve the information flow to/from PHGs and similarly to PHG advisors for breeding and veterinarian services, the mission recommends the designation of one (or several) pasture land management focal point(s) to act an interface between PHGs members and local authorities.

14. The project still carries two different target numbers of pasture herder groups (120 and 135). The mission recommends to align the number of PHGs benefiting from pasture land management training with the number of PHGs used as a basis for investment purposes (120 PHGs). Similarly, in the appraisal document the average number of member households per group was assumed to be 70 with a total number of targeted herder households over 9 000. Currently, the average number of member households in project-supported groups is about 30, and this would make the total number of targeted herder households 4 050. The mission recommends to consider adjusting the target objectives to 4 050 herder households.

15. **Alignment on governmental policy** is moderately satisfactory. In line with the government policy promoting cooperatives, training in cooperatives establishment and management is planned to be provided by the selected NGO from 2015 onwards. However, the mission recommends the selected NGO to assess the level of development of currently supported PHGs and start providing such a training from 2014 onwards to PHGs with the highest level of development and sustainability. The transformation of groups into cooperatives will also constitute an opportunity for a more leadership role of women. In that respect, the project and the selected NGO should focus their support on women capacity building to enable them to assume such positions. The mission recommends that the above should be included in the terms of reference of the service providers to be recruited.

16. **Climate change adaptation.** The overall assessment of the Climate Change Adaptation sub-component is satisfactory as the implementation has in general progressed as planned. The sub-component includes the following activities: (i) awareness raising and best practices in climate change adaptation; (ii) climate resilient investments; (iii) meteorological information and dissemination; (iv) vocational training; (v) index-based insurance, and (vi) veterinarian and breeding services.

17. **Awareness raising and best practices in climate change adaptation.** A total of 80% of PHGs members is to be trained and to receive information within the project duration, while the 2013 AWP&B target is 30%. In 2012, 340 people were trained in natural resource management in 15 Soums; for 2013, 387 people are planned to be trained in three Aimags (Arkhangai, Bulgan and Huvsgul) in the next two months (dated end June 2013). To date, activities have been organized with 60 selected groups. Information on climate change and on adaptation practices has been provided

within trainings on pasture land management. Best practices promoted include: pasture rotation, pasture resting, hay making, fodder production, protection of springs, cooperatives, fertilizing (with manure) and fencing of haymaking areas and vegetable growing. Handouts on these practices have been produced and are ready for distribution. However, after attending one of such training, the mission considers that more emphasis should be given on climate change and adaptation.

18. In that respect, the mission recommends the PMU to: (a) review the training module to avoid any overlapping with modules on pasture management techniques and add available climate information such as maps, charts (a list of appropriate information to be used will be annexed in the supervision mission report); (b) ensure that sufficient time is allocated to the subject with a more participatory training delivery promoted; and (c) ensure the proper use of existing educational materials, such as the one developed by GIZ/Ministry of Environment on combating desertification and climate change adaptation. Any material produced with support of the project should also be shared with other agencies and projects, and with the National Extension Service with digital files to be uploaded on its website (www.agrinfo.mn).

19. *Investments* is moderately satisfactory. In the 2013 AWP&B, the following investments are considered: (i) 30 wells dug and 60 technicians trained; (ii) 25 fenced springs; (iii) 1 hay and fodder storage facility constructed; (iv) 15 hay-making area fenced; (v) 30 sprinklers installed; (vi) 45 tractors with haymaking equipment purchased; and (vii) 3 water harvesting points constructed. To date, none of the above-mentioned investment has been fully completed, but contracts have been awarded and delivery/construction should be completed before the end of 2013. However, in Huvsgul *aimag*, some locations identified for wells construction are in permafrost area leading to significant technical challenges for construction and maintenance. The MoIA Technical Working Group (TWG) has recommended that, for those in permafrost, the local authorities is vested with the responsibility for organizing the bidding procedure and selection of service providers and that funds allocated for wells construction can be used for other purposes, such as: construction of wells for drinking water for human consumption or the rehabilitation of existing wells. The mission agreed on the MoIA TWG proposal subject to a detailed plan elaborated in a participatory manner by herders' groups and endorsed by the local *soum* authority. The mission recommends that the PMU should undertake a more participatory process to consult with the target group members and assess their needs and priorities, when the PMU prepares its work plan and procurement plan.

20. The areas fenced around springs are usually 50-60 square meters only. For a more important impact, fencing a larger area would be more effective and additional measures should be undertaken, such as preventing grazing in the vicinity, and protection and restoration of stream beds, banks and riparian areas. The mission recommends that the PMU should ensure that these measures are integrated within pasture management plans and that adequate capacity among PHGs members is developed for riparian management.

21. The distribution, selection of recipients, operations and maintenance of the equipment and facilities provided by the project to the PHGs have not yet been implemented as their institutional set-up and procedures are still not approved by both the MoIA and the MoF. The project has developed under a participatory approach with PHGs draft guidelines for this purpose. The draft guidelines reviewed by the mission is attached to the aide memoire for finalization by the PMU and approval by MoIA and MoF. The mission recommends: (i) MoIA and MoF to expedite the approval of the guidelines; (ii) IFAD to give its no-objection on the latest version of the guidelines; and (iii) the PMU during its field visits to ensure compliance with the guidelines. When the equipment and facilities are owned and used by the community, the mission recommends the implementation of a specific fund to finance operations and maintenance of the equipment and facilities. A specific manual of procedures will also be drafted by the PMU (approved by IFAD, MoIA and MoF) to assist PHGs with a proper use of their Revolving Fund, as planned in the guidelines.

22. Confirming an observation and recommendation of the 2012 supervision mission, it is noted that PHGs have different needs and already owned some assets. The mission recommends that project investment decisions should be based on a needs assessment carried out at PHGs level. In case the demand from a PHG for a specific equipment or facility is inferior to its related budget, the equipment in surplus should be awarded on the basis of a needs assessment carried out at the level of all groups in the *soum* (especially for wells digging and spring fencing). The mission also recommends that local facilitators are informed of the investment purpose, provide advice and facilitate decision-making within PHGs for the use of project-provided equipment and investments.

23. *Meteorological information and dissemination.* The Government of Mongolia aims at upgrading existing automated weather station (AWS) in each soum, and originally planned 55 investment to be installed in 2013. The project has budgeted an amount of USD 89 000 to provide 5 AWS in 2013 and additional 10 in subsequent years. Due to an increased price of AWS, the current budget would only allow the procurement of nearly 5 AWS. Training for soum meteorological officers and dissemination of weather information for herders activities have been budgeted to USD 39 000 and USD 13 000 respectively. In order to maximize the impact and outreach of the activities, the mission recommends the following three options to be explored by the PMU, considering that approximately 20% of the purchase price need to be set aside for AWS calibration and maintenance: (i) selection of priority 4 or 5 soums together with the National Agency for Meteorological and Environmental Monitoring for the implementation of AWS and training of their staff; (ii) identification of additional resources to top-up the PMPMD allocated budget so as to implement 1 AWS per project soum; or (iii) focus the global budget on the strengthening capacities of meteorological officer through training and/or on the improvement of dissemination of relevant information to local authorities and herders. In that regard, the PMU should submit a proposal to IFAD before end of July 2013.

24. *Vocational training.* To support diversification of incomes as a strategy for income generation and poverty alleviation, the project design prescribes that 30 young people from PHGs receive vocational training. The annual target was increased beyond the overall target to 60. To date, several activities have been prioritized by the PMU (tractor driver, mechanic, phone repair and maintenance, carpentry, and construction) with training duration ranging from 1.5 to 3 months. The PMU has also entered into an agreement with the State Training Centre in Ulaanbaatar for the provision of these trainings. To date, only 30 candidates have sent their application to the PMU and vocational training should be conducted in the 2nd semester of 2013.

25. *Index-based insurance.* Another activity to strengthen resilience of pastoral communities is education on opportunities that index-based livestock insurance (IBLI) offers. The project planned to train 135 PHGs in IBLI with a target of 60 PHGs included in the 2013 AWP&B. Training has not yet been delivered but is planned for September 2013. The WB IBLI project aims at providing 30-40% of population in each *soum* and each *aimag* with face-to-face training. The impact of the IFAD/GEF additional contribution to this training would be minimum. Meanwhile, the Green Gold project provides consulting services to the WB for a 2013 pilot study on a (pasture) Group Insurance mechanism working with PHGs. Considering that a pasture group insurance mechanism would likely strengthen the cohesion of government and project-supported herders' cooperatives, the mission recommends to hold the individual insurance training planned in 2013 and develop a plan for the provision of group insurance training in coordination with WB IBLI project once results of the pilot study are published.

26. *Veterinarian and breeding services.* Training in livestock health and breeding is an important aspect in strengthening adaptive capacity of pastoral. The planned project support was to train 60 individuals with an annual target of 30 in the 2013 AWP&B. In June 2013, the first stage of training was delivered to 30 trainees. Professional organizations (Mongolian Veterinary Medical Association and Biological Resource Management School of the Mongolian State University of Agriculture) were contracted to deliver the training. They prepared and distributed 3 sets of manuals and handouts. Trainees were the respective officers (animal health, breeding) of livestock units of the 15 project *soums*. Once trained, the 30 officers will train 4 herders each in their *soum* that will act as PHGs' advisors. Selection of individuals to be trained as PHGs' advisors has been done jointly by the group leader, local facilitator and the contracted specialist of the livestock unit. This is a promising scheme to develop a functioning extension service to herders in rural Mongolia. The mission recommends to evaluate and document such a scheme, share the lessons with the MoIA for a possible scaling-up.

Agreed action	Responsibility	Agreed date
Design a specific template detailing the content, agenda, list of participants and name of trainer(s)	PMU	30 July 2013
Design a specific template to report on each training with signature of participants and trainer(s)	PMU	30 July 2013
Organize feed-back focus groups with sample of beneficiaries for each training module	PMU	July 2013 onward
Assist PHGs to designate their pasture land management focal point(s)	PMU/PHGs members	July 2013 onward
Revise number of PHGs supported by the project (120) and the target number of herder households (4 050)	PMU	Immediately
Provide training on cooperatives to most advanced	PMU	July 2014 onward

Agreed action	Responsibility	Agreed date
PHGs groups		
Further focus support for women in cooperative training	PMU/NGOs (MSRM & UMPSC)	July 2014 onward
Revise training modules on climate change adaptation, add climatic information, ensure adequate duration, and use existing documentation	PMU/NGO (MSRM)	August 2013
Ensure that additional measures to spring fenced areas are included in pasture management plans with adequate capacity building provided to PHGs members	PMU/NGO (MSRM)	From July 2013 onward
Expedite governmental approval for PHGs guidelines and Revolving Funds procedures ,seek IFAD no-objection, and implement controls on use of funds	MoF/MoIA/IFAD/PMU/NGO (MSRM)	July 2013
Assist PHGs to implement a specific fund for operation and maintenance for community-owned private goods	PMU/NGO (MSRM)	July 2013
Undertake an investment needs assessment for each PHG and at <i>soum</i> level if less equipment are demanded by PHGs than budgeted	PMU/NGO (MSRM)	July 2013 onward
Explore three options for the meteorological equipment: (i) procure only 4 or 5 after prioritization of <i>soum</i> ; (ii) identify additional budget sources and procure the 15 planned stations, or (iii) transfer budget from equipment to strengthening dissemination process	PMU/NAMEM	By end of July 2013
Hold insurance training planned in September 2013	PMU	Immediately
Evaluate and document the vet and breeding training methodology	PMU/NGOs	July 2013 onward

Market Development.

27. The Market Development component is to promote poverty reduction and livelihood improvement through economic development and consists of: a) value chain development; b) small and micro-enterprise development; and c) loan guarantee. The implementation of Market Development activities is through: (i) selection of service providers (one for Value Chain Development and one for Micro-Enterprise Development); and (ii) a loan guarantee facility. The overall assessment of the Market Development component is moderately unsatisfactory.

28. *Value Chain Development*. The sub-component outcome target is to assist 5 500 households in the project area to increase their sales and profits in 15 value chains. In addition, it seeks to assist 500 households to enter into collective commercial arrangements that share risk and profit with private sector partners. To do so, the subcomponent provides support to organizing households into about 120 groups that benefit from economies of scale and improved skills and to the execution of business plans agreed with partners across each specific chain; and envisages support to 5 SMEs with joint shareholding or other mutual profit-sharing arrangements with targeted households. The assessment of the Value Chain Development sub-component is unsatisfactory.

29. Many changes in the institutional set-up of this sub-component have affected its implementation. The agreement reached between the Government of Mongolia and IFAD during the February/March 2013 Project Implementation Support mission has not yet been implemented. The Value Chain Coordinator has not yet been selected and contracted by the LGF Unit while the identification of experienced individual value chain technical consultants has also not yet started. The Value Chain Coordinator's main responsibilities include: (i) conduct value chain analysis based on aimags and soums potentials assessment identifying bottlenecks, constraints and opportunities; (ii) ensure integration of smallholders, herders and producers in selected value chains; (iii) assist selected value chain stakeholders to enter into contractual arrangements and ensure equitable and sustainable distribution of value added along the value chain; (iv) together with the technical experts, identify capacity building and training needs for stakeholders, potential market opportunities and related obligations; and (v) together with the Value Chain Financial Specialist, identify potential investment opportunities with strong backward linkages.

30. To ensure that groups/cooperatives formed and capacitated under the Pasture Management component as well as women's groups under the Microfinance sub-component have sustainable access to profitable markets, the mission recommends that the Value Chain Coordinator is recruited under the LGF Unit without any further delay. To ensure coherence between government policy and

project objectives, the mission recommends the Value Chain Coordinator to be selected by a specific committee composed of one representative from MoIA, one from MoF, one from PMPMD PMU, and one from LGF Unit. The mission's report will include a 12-month roadmap for the Value Chain team.

31. The Value Chain Coordinator will be based in the LGF Unit premises and will implement project activities under the guidance of the MoIA TWG. He/she will coordinate project sub-components' activities in line with Government policy and strategy. He/she will provide technical assistance and guidance to women's group/microfinance and pasture management components service providers. Beside an internal reporting to the MoF, the LGF Unit will also report to the PMPMD PMU on both the Value Chain Development and the LGF-related activities.

32. *Small and micro-enterprises development.* The outcome target is that 2 750 women have improved access to finance (through group savings and credit and linkages to financial institutions) and skills to generate additional income from small and micro-enterprises. The assessment of the small and micro-enterprise development sub-component is moderately satisfactory.

33. As agreed between the Government and IFAD during the February/March 2013 Project Implementation Support mission, the contract of the currently selected NGO (Union of Mongolian Production and Services Cooperatives - UMPSC) responsible for the implementation of the small and micro-enterprise development sub-component has been extended to July 31st, 2013. The same selection/recruitment procedure as for the NGO for the Pasture Management and Climate Change Adaptation will be applied by the PMU. Based on the Bidding Evaluation Committee report issued by the PMU and sent to IFAD, IFAD no-objection was granted to only one applicant. The signature of the new contract is expected to take place by September 1st, 2013. This delay of one month compared to the agreed period for the new contract will have no budgetary cost incidence but will further delay the implementation process (selection of new *soums*, recruitment of local facilitators at *soum* level, and group formation and training). Therefore, IFAD and the PMU should expedite their part of the selection/approval process to ensure signature of the new contract on September 1st (or even before). Once the contract is signed, the PMU should also expedite the procurement of equipment for aimag facilitators.

34. As of June 30th, 110 groups (totaling 631 members of which 539 are women) have been formed and capacitated by the UMPSC through several cycles of training modules including group formation and management, financial management, technical skills development, business planning and project proposal elaboration. In most cases, women's groups are requesting MNT 8 million. Level of development of women's groups is extremely uneven with groups having elaborated business plans that will meet bank's requirements for financing but with also a large number of groups the business plans of which will face difficulties when submitted to banks for financing. The situation is crucial in Gobi Altai *aimag* exacerbated by the fact that the NGO *aimag* facilitator has only been recently recruited in replacement of the former one. The mission recommends: (i) each NGO *aimag* facilitator to review business plans from all supported groups; (ii) only business plans compliant with bank's requirement to be submitted before end of July 2013 to banks (1st batch); (iii) assistance to be given to all other groups to improve their business plan. In that respect, the NGO should promote peer review and assistance by most skilled aimag facilitators to weaker ones, and (iv) submission of improved business plans to banks before the end of August 2013 (2nd batch). Business plans effectively financed by partner banks should represent at least 80% of all women's groups-supported business plans submitted. The NGO should also further sensitize women's groups in the use of their Revolving Fund which in many case remains idle (possible utilization could include: provision of small loans to group member in case of social or investment need, collateral against the loan extended by the project partner bank).

35. *Loan Guarantee Facility.* This subcomponent aims at supporting the access to commercial banks' credit for value chain stakeholders, women's groups, producers' and herders' groups and cooperatives as well as pasture herder groups established under the Pasture Management component to finance their activities through the establishment of a Loan Guarantee Facility (LGF). The assessment of the Loan Guarantee Facility sub-component is moderately satisfactory.

36. The Loan Guarantee Facility Unit has been created by Order of the State Secretary of MoF dated March 1st, 2013 while its Technical Committee composed of 6 members (MoF, MoIA, MoL) has been created by order of the Chairman of the Project Steering Committee # 1 of April 11th, 2013. Recruitment includes two positions: one Manager and one officer. Office equipment has been procured while procurement of the LGF Unit vehicle is on-going. Delay in the operationalization of the

LGF mainly results from longer than expected negotiations with many potential partner banks to fine-tune the LGF Manual of Procedures for the guarantee facility and credit line with that of the banks. The LGF Technical Committee as well as the PMPMD Steering Committee have not yet approved the LGF Manual of Procedures and drafts of guarantee contracts and agreements. Considering minor changes to be included in both LGF Manuals of Procedures based on partners banks' comments, these manuals have been submitted to IFAD for approval prior to their submission to the LGF Technical Committee and the PMPMD Steering Committee for endorsement. Considering possible legal actions against the LGF by commercial banks in case of unaccepted claims, the mission recommends all legal documents issued by the LGF (guarantee contracts and guarantee agreements) to be reviewed and approved with a legal opinion issued by an authorized government agency (the LGF unit could first explore the possibility to have these documents approved by the MoF legal department, or the Mongolian Financial Regulatory Commission, the Mongol Bank if one of them has the mandate and authorization to issue independent legal opinion), or a Mongolian law firm, to ensure compliance with: (i) Mongolian commercial laws and regulations; (ii) the Law on Guarantee Fund; and (iii) the Banking Law and regulations issued by the Mongol Bank. The LGF Unit staff is requested to attend a specific training course on Guarantee Fund management organized by ILO/Boulder University in Italy, to further build up its skills and knowledge on guarantee funds operations. Finally, the mission recommends the organization of a specific inception/training workshop for the LGF Unit activities with the participation of all commercial banks and non-bank financial institutions, development funds (EGF and SMEs Dev. Fund), projects with a microfinance/rural finance/development agenda, MoF and Mongol Bank.

37. Resources allocated to the LGF for guarantee purposes amount to USD 2.9 million, of which USD 1.0 million is allocated for PMPMD-supported beneficiaries in the 5 aimags of the project area and USD 1.9 million for similar types of beneficiaries outside the PMPMD area. A first tranche of USD 0.9 million will be transferred from the PMPMD designated account to the LGF Unit loan guarantee bank account once the LGF manual of procedures for the guarantee facility has been approved by IFAD. It has been agreed that the subsequent transfer of resources allocated to the LGF activity (amounting to USD 1.9 million) would be processed once 75% of resources transferred has been committed to the coverage of risks on loans extended by participating commercial banks.

38. A workshop was held during the Project Implementation Support mission in March 2013 with the objective to introduce and detail the Loan Guarantee Facility and its operational scheme to all commercial banks operating in Mongolia. Negotiations with commercial banks have been actively carried out by the LGF Unit and as of June 30th, 2013, two guarantee contracts have been signed between the LGF Unit and Savings Bank and the LGF Unit and Capital Bank (June 25th). A third guarantee contract should be signed between LGF Unit and Khaan Bank soon. As of June 30th, 2013, no guarantee has been extended to any of the two partner commercial banks. As far as project-supported beneficiaries are concerned, activity of the LGF Unit will start once women's groups will be financed by partner commercial banks (July and August 2013). As for other beneficiaries outside of the project area, the mission recommends that the LGF Unit Manager holds meetings with senior representatives from all commercial banks financing target beneficiaries and also with senior representatives from governmental funds and/or donors funds aiming at financing rural development and activities to market the LGF so as to start its activity with non-PMPMD beneficiaries.

39. The sustainability of the LGF Unit should be based on the following financial income flows: (a) fees charged by the LGF unit to commercial banks (1% of outstanding loan amount guaranteed); and (b) interest income earned on the investment of LGF resources in fully secured financial instruments. Those two sources of income would: (i) cover the LGF Unit operating costs (estimated to increase from USD 58 000 to USD 75 000 per year over the next 4 years); (ii) cover pay-outs for accepted claims; and (iii) be capitalized in the LGF resources so as to increase its resources and outreach. Uncertainty related to the possible use of interest earned on LGF resources investment might put the LGF financial sustainability in jeopardy. The mission recommends the LGF Unit to advocate its position vis-à-vis the Government of Mongolia through meetings to ensure its long-term financial sustainability.

40. The LGF Unit as part of the PMPMD should prepare financial projections inclusive of estimated financial income and operating expenses - comprising of salaries and related expenses, travel costs, stationeries, rent, communications and other operating expenses - to demonstrate its long-term financial sustainability. The yearly operating expenses budget should be also submitted to the PMPMD PMU for inclusion in its AWP&B.

41. *Credit Line is moderately satisfactory.* Considering the long and slow process of Employment Generation Fund (EGF) resources allocation to *aimags* and *soums*, and the risk of project-supported women's groups not being timely financed for the development of their seasonal activities, an amount of USD 0.5 million has been reallocated from LGF resources for guarantee purposes and used as a credit line for on-lending to partner commercial banks to finance women's groups supported by the PMPMD-recruited NGO. Two Subsidiary Loan Agreements (SLAs) have been signed between the Ministry of Finance and Savings bank and between the Ministry of Finance and Capital Bank (May 29th). An amendment to these SLAs has been signed on June 24th by both commercial banks to reflect on the change in the guarantee mechanism as a result of a Mongol Bank regulation. For Savings Bank, the LGF Unit, vested with the responsibility of monitoring the operations of the credit line, has transferred USD 0.2 million to Savings Bank and the bank will on-lend this amount to eligible project-supported women's groups in the 5 PMPMD aimags. Capital Bank will pre-finance eligible project-supported women's groups and will ask for refinancing from the credit line based on appropriate supporting documentation. LGF Unit is still negotiating with Khaan Bank its participation in the credit line scheme.

42. An amount of USD 0.3 million has already been transferred by the PMPMD PMU to the LGF Unit credit line account. An additional amount of USD 0.1 million will be transferred by the PMPMD PMU once the Khaan Bank SLA has been signed and the LGF unit will immediately transfer USD 0.2 million to Khaan Bank. Since 110 groups have already elaborated their business plans, it is expected that the credit line will be fully disbursed by the end of September 2013. Loan repayments will constitute a revolving fund at the level of the partner banks that will be used for financing additional women's groups. The updated manual of procedures for the credit line activity has been submitted to IFAD for approval prior to be submitted to both the LGF Technical Committee and PMPMD Steering Committee for endorsement. The mission also recommends the LGF Unit to open a third bank account to receive payments of bank fees and income from investments.

43. *Partnership with governmental and/or donor development fund.* Considering the high interest rate charged by commercial banks when lending from their own resources, the LGF Unit will extend guarantees to commercial banks when using governmental development fund (Employment Generation Fund, SMEs Development Fund) and/or donor development fund (JICA Two-Step loan) to on-lend at a concessional interest rate. This partnership has not yet been effective. Meetings with senior representatives of both SMEs Development Fund and Employment Generation Fund have highlighted a lack of understanding of the project's objectives and implementation mechanisms leading to an absence of coordination between these funds and the project. The partnership has also not been effective with regards to the provision of training to potential beneficiaries. The mission recommends the following measures to be taken without any further delay: (i) a joint order of MoF, MoL and MoIA should be issued detailing the PMPMD objectives and implementation mechanism, its financing and guarantee mechanisms, the eligibility criteria for its target beneficiaries as well as its compliance with the objectives and operational mechanisms and procedures of the governmental development funds; (ii) a financial planning exercise should be carried out between the PMPMD PMU/LGF unit and each governmental fund based on the target number of PMPMD beneficiaries per year, per *soum* and their estimated amount of loan to be financed. The allocation of funds per *soum* by each governmental fund should take into account this estimated amount to ensure that enough resources will be allocated in project *soums* to cover both PMPMD beneficiaries and other beneficiaries; and (iii) a training plan should be worked out in order to maximize impact and outreach of training on loan beneficiaries and avoid overlapping between project and governmental funds. The financial planning and training plan should be worked out for each fiscal year.

44. Access to resources from these funds are subject to legal and financial requirements. In the case of both the EGF and the SME Dev. Fund, the notion of 1 job created for each MNT 1 million lent is predominant in the approval process. Women's groups with an average of 6 members and a loan request of MNT 8 million exceed this ratio. The mission recommends the PMU to advocate an amendment to SME Dev. Funds' internal policy to enable PMPMD groups to be financed with funds' resources. Tax registration and payment of social taxes constitute also a requirement from the SMEs Dev. Fund. Groups promoted under the project are no legal entities. However, it was agreed that training certificates and identification of groups at *soum* level and certificate of membership issued by NGO to each group member would be sufficient to substitute the tax registration.

45. The government policy is to promote the development of cooperatives instead of informal groups. To comply with this policy, the project has already included the provision of technical

assistance and training to all groups formed under the project to enable them to change their legal status. The mission recommends that for the more advanced women's groups financed in 2013, this technical assistance and training on cooperative starts in 2014 instead of 2015. In addition as the change in the legal status will imply an increase in operating costs for the group/cooperative and as the payment of income tax will constitute an hindering factor for group members, the mission recommends the PMU to engage a policy dialogue with the Ministry of Finance on the possibility of implementing a temporary tax exemption for such cooperatives. Apart from the incentive for group members, the tax exemption would also enable cooperatives to build up their financial position; hence strengthening their balance sheet and financial sustainability.

Agreed action	Responsibility	Agreed date
Recruit the Value Chain Coordinator (specific selection committee to be formed)	LGF unit	Immediately
Review all women's groups business plans, submit the most elaborate ones to banks (1 st batch), assist women's groups to further elaborate their business plans and submit them to partner banks	NGO (UMPSC)	July and August 2013
Contract an authorised government agency or a legal firm to review compliance of LGF documents with Mongolian Commercial Law, Law on Guarantee Funds, Banking Law and Mongol Bank regulations and issue a legal opinion	LGF	Immediately
LGF Unit staff to attend a specific training course on Guarantee Fund Management	PMU/LGF	November 2013
Organize an inception workshops with stakeholders of Guarantee and Credit line facilities	LGF	End-September 2013
Market the LGF scheme with regards to loans extended by commercial banks in non-PMPMD areas	LGF	Immediately
Advocate the use of interests generated by investment of LGF resources to cover LGF operating costs and increase LGF resources	LGF	Immediately
Elaborate financial projections and submit them to PMU	LGF	30 July 2013
Endorse LGF Guarantee scheme and Credit line manual of procedures	LGF Technical Committee and PMPMD Steering Committee	30 July 2013
Open a 3 rd bank account for fees paid by bank and interests on financial investments	LGF	Immediately
Issue a Joint Order of State Secretaries related to the use of EGF and SMEs DF for financing PMPMD groups	MoIA/MoF/MoL	Immediately
Elaborate a financial and training planning for PMPMD-supported groups	PMU/LGF	Immediately
Advocate temporary tax exemption for cooperatives	LGF	From 2014 onward
Advocate amendment on SMEs Dev. Fund and EGF policy	PMU/LGF	Immediately

Project Management and Policy Support

46. The assessment of the performance of the project management component is moderately satisfactory. Technical Committees (or Technical Working Groups) have been formed: 2 at the MoIA (one for Pasture Management and Climate Change Adaptation and one for Value Chain development) and 1 at MoF (for the LGF). While a component coordinator for the pasture component has been recruited and significantly contributed to the implementation of the activities and to strengthen the cooperation with the selected NGO responsible for the Pasture Management and Climate Change Adaptation component, the Value Chain Coordinator has still not been recruited by the LGF Unit as per the recommendation of the February/March Implementation Support Mission. Any further delay will affect the activities of both components and place the project in jeopardy. As stressed out by the MoIA, immediate action is required with regards to the recruitment of the Value Chain Coordinator. He will implement the value chain related activities under the guidance of the MoIA TWG and will report to the LGF Unit Manager, who in turn will report to MoF (internal procedures) and to the MoIA through the PMPMD PMU.

47. All local facilitators for the 15 *soums* under the Pasture Management and Climate Change Adaptation component are appointed and have received initial training, office equipment to operate

and motorcycles for travel in their *soums*. Any further expansion of the project activities beyond the 15 *soums* will be discussed during the MTR. 5 facilitators have been contracted by the selected NGO responsible for the microfinance/women's groups component to monitor the activities in 20 *soums* (1 facilitator per aimag - but under the next contract one facilitator per each *soum* will be recruited). Equipment for the 5 local facilitators have not yet been provided by the PMU. This should be done immediately considering that the current NGO is also the only one bidding for the next contract.

48. The mission is pleased with the MoIA decision to financially contribute to the rental cost of the PMU new offices.

49. The plan to develop a separate law on pasture land has been abandoned by the new government and instead a procedure to regulate pasture land use under the current land law is being developed. The procedure is likely to provide use and possession rights over pasture land, not ownership, to households, individual herders, legal entities and groups of herder households. The only ownership rights would be on land under the winter camp. While possession would be optional for the above entities, the new procedure places emphasis on possession by families, based on customary practice. The possessor will have certain management responsibilities such as not to exceed the carrying capacity and to apply sustainable pasture management practices (rotation and rest), and to rehabilitate degraded pasture. The possessor will also have to pay a fee, based either on livestock number or pasture land area used (still to be determined). The Ikh Khural (National Parliament) is expected to discuss the procedure in the upcoming autumn session; the government is developing a regulation under this procedure.

50. The project approach and ongoing activities are not in contradiction to the new provisions. Once effective and with the responsibilities for pasture user clearly defined, the implementation of pasture land plans, by groups of households within the *soum* pasture land planning, will benefit from a stronger legal basis. The project can make a contribution to implementing the new procedure. Training of herders/member households of groups in sustainable practices (rotation, rest, rehabilitation, rodent control, hay and fodder production, animal health, nutrition and breeding, water sources protection, riparian protection and management), and appropriate extension mechanisms gain even more importance given that sustainable management responsibility will lie with the possessor, namely herder households. The new procedure, and the new legislation on soil protection both define rights and responsibilities of resource users and local government, and training in management and monitoring are very important elements to which the project can contribute.

51. The project through the LGF can also substantially contribute to the strengthening and improvement of the Law on Guarantee Funds. The LGF Unit will disseminate lessons learnt and best practices with all stakeholders. In that respect, short-term training provided to risk and credit managers of commercial banks and non-bank financial institutions on Guarantee Facilities would be advisable, considering the innovative financial instrument for Mongolia. Furthermore, the project in compliance with the government policy, will promote the transformation of groups formed under the project into cooperatives. However, financial constraints for poor households and taxation of such legal entities are hindering factors that might limit the development of such cooperatives. The Government could envisage the implementation of a temporary tax exemption for new cooperatives that would be tested under the project.

D. Project implementation progress

52. The overall performance of the project management is satisfactory. There are marked differences in management performance by component/sub-component. The non-recruitment of the Value Chain Coordinator is a major obstacle in the implementation and development of the Market Development component but also of the whole project considering the necessary integration of pasture herders' groups/cooperatives in strengthened value chains. Any failure to recruit this coordinator immediately would put the whole project in jeopardy in achieving its development objective and drastically reduce its impact and achievements.

53. The PMU and the LGF unit are both an integral part of the PMPMD, although located in two ministries of MOIA and MOF. An effective and improved coordination and interaction will contribute to the successful implementation and development of all project activities.

54. The workshop that had been suggested by the 2012 supervision mission to be organized in conjunction with the 2013 supervision mission to evaluate the effectiveness of the approach, share lessons learnt among project areas, and define best practices in pasture management and climate change adaptation was postponed considering delays in implementation and lack of effective activities in most sub-components. PMU plans to organize this workshop in mid-November 2013, with the above objectives and as a preparation for the Mid-Term Review and capacity building exercise for stakeholders. Details for the proposed workshop, including objectives, program and participants will be provided as an Annex to the report on the Pasture Management and Climate Change component of the Supervision Mission.

55. **Monitoring and evaluation.** Since 2012 supervision mission, the PMU has taken important steps in executing M&E activities, and the overall assessment of M&E is moderately satisfactory for this phase of the project. It has established computerized monitoring spreadsheets that capture a clear plan of activities and outputs linked to the logframe and associated project strategy. Outputs are reported by partner NGOs through quarterly progress reports that are validated by the PMU and by the Ministry's Monitoring and Audit Unit. Outcome statements are clearly expressed, and tools for their measurement are being specified with assistance from IFAD HQ. The PMU has ensured the timely execution of a comprehensive RIMS baseline survey and shared its findings with Government and other partners at a workshop. The meeting generated interest in IFAD's RIMS system from other donors, which was due at least in part to the good analytical skills and illustrations by the Survey team. The PMPMD Steering Committee receives regular progress updates that enable it to make informed decisions about project direction when it meets. As these elements fall into place and the system is further developed according to the recommendations below, the system will be able to address the information needs of key stakeholders that contribute to the achievement of the project goal and objective. The PMU should: (i) to further discuss with the MoIA M&E department to comply with its prerequisites and templates desired; (ii) to ensure that PMPMD results are fed into the MoIA M&E and its overall objectives and targets; and (iii) to explore the use of remote sensing and GIS to help monitor the health and productivity of pastures over time, in coordination with NAMEM and in collaboration with the Environmental Information Centre (EIC). As a National Remote Sensing Centre, EIC provides raw data (resolution 250m*250m) freely for public use (www.icc.mn). The mission recommends the PMU to submit an action plan on the GIS information and its use by 15 August. The plan should be developed together with NAMEM and EIC, and technical guidance for the PMU will be provided by IFAD when requested.

56. The PMPMD PMU should ensure that both NGOs have the required skills and capacity to collect necessary data to evaluate progress made and impact. NGOs local facilitators should be trained by the project in that respect. Both the PMPMD M&E and NGOs should agree on a list of data to be compiled, their frequency, the collection process and the methodology to ensure their reliability. A dynamic follow-up of impact on income and poverty on a sample of project-supported beneficiaries groups should be implemented by NGOs under the guidance of the PMPMD M&E and the related sample be selected while women's groups are being financed (and later herders' and producers' groups/cooperatives).

57. **Gender focus.** The overall assessment of gender focus is satisfactory. The Market Development component has a strong gender focus. Under the micro-enterprise development activities, groups' membership is mainly constituted of women (above 90%) with most group leaders being also women. As for herders' and producers' groups, the selected service provider will promote women's participation (especially in producers' groups). In addition, gender focus is one of the eligibility criteria for accessing Guarantee Facility for non-PMPMD beneficiaries. With regards to the Pasture Management component, to date, the formal percentage of women in decision-making bodies (leadership of pasture herder groups) is only 15 %. The largest group with 73 member households, has a female leader with experience in group organization and management. Leadership and internal organization and structure of groups are still under development; many of them are discussing the establishment of women's councils within the group based on experience from other projects on herder organizations. Through the division of labor among households, for example in different herding tasks and vegetable growing, women also benefit and have more opportunities to undertake income generating activities.

58. The project should make a continued effort, in group facilitation and trainings, to include women and encourage their active participation and build their capacity. Women played key roles in strengthening of PHGs elsewhere, driving their social organization and coherence, and have taken

leading roles in economic activities. With the promotion of cooperatives, the project and selected NGOs should adapt their technical assistance and capacity building training to ensure that women are able to fulfill leading roles in cooperatives, thus enabling women's economic empowerment.

59. **Poverty focus.** The overall assessment of the poverty focus is moderately satisfactory. All women's groups promoted under the PMPMD micro-enterprise development activities have a significant membership with very poor and poor women, together with better-off ones. When formed, herders' and producers' groups should also include a significant proportion of poor households. Access to financial resources, access to improved inputs and equipment as well as to improved technologies, and inclusion in structured value chains allowing them to reach new markets will greatly enhance the sustainability and profitability of their activities, hence significantly increasing their income. Changes in households' poverty level will be assessed through regular survey, the results of which will be compared to the results of the baseline survey carried out a sample of project's beneficiaries and non-beneficiaries. In the case of non-PMPMD beneficiaries, poverty focus will be one of the eligibility criteria to access the success of the Guarantee Facility. The current approach to group organization, based on pasture boundaries, promotes inclusiveness. With the territorial approach to group formation, poor households are theoretically included both socially and economically, and benefits to the poor can derive in several ways: (i) through 'employment' as herders for wealthier group members; (ii) through labor division, poor households may be better enabled to send their herds with other members' herds; (iii) through group agreements on pasture land management that promote more equity/equitable access to key resources; and (iv) through access to group-based resources/equipment/small loans. Support to facilities in *otor* areas provides a benefit in particular for poor herder households who depend more on *otor* reserves for survival of their herds as they do not have the same ability to prepare for winter, or manage risk, as wealthier herders have. 34.4 % of all group member households (2012) were reported by the service provider to have less than 200 (sheep units) animals, and are therefore to be considered poor. For the selection of trainees for vocational skills training, the poverty level of selected individuals constitutes the main criteria.

60. **Effectiveness of targeting approach.** The overall assessment of the effectiveness of the targeting approach is moderately satisfactory. The targeting of the project is focusing on poverty and gender. With regards to the market development component, the target group includes: (i) women and men from herder households (and for income generating activities also of *soum* center households); and (ii) female-headed households and households listed as poor or vulnerable by local government. Field visits have confirmed the compliance of groups formed with the targeting objective of the project. For pasture management, the approach is inclusive: all herding households/users of a defined pasture unit are to adhere to a pasture management plan jointly developed for the pasture unit by (the majority of) group members and local government. Based on the average poverty incidence in the project Aimags (36 %), only a fraction of the target groups 'Women and Men of Herder Households below or near poverty line' and 'Women and Men of Soum Center Households below or near poverty line' can be supported with investments/trainings other than inclusion in the Pasture Herders' Groups and related support. The poverty incidence of 34.4 % of the herder group member households so far illustrates that the targeting approach (inclusive/territorial groups) in the pasture management component is appropriate and reaches the poor in the target areas. However, elite capture of project provided benefits should be avoided, and it is therefore necessary to undertake extra efforts to promote inclusion of poor and marginalized households and individuals in project activities and support. Outreach to these households could be ensured through local facilitators working closely with *bag* governors and the *soum* social officers.

61. **Knowledge management.** The overall assessment of knowledge management remains moderately satisfactory, as no explicit knowledge management products have been produced by the project. In implementing an innovative approach, PMPMD has addressed challenges in engaging partners in rural finance and in pasture management, generating lessons that is relevant at a national level. The project plans to hold stakeholder learning events for experience sharing and identifying lessons learnt, among participating groups and *soums*, and for presenting these lessons to policy makers. Similarly, as the loan guarantee scheme evolves, it offers applied lessons on what is practically feasible under Mongolia's Law on Guarantee Fund passed on 10th February 2012. The value chain subcomponent also has good potential to generate useful lessons once more partnerships are mobilised. The first step has been sharing the baseline survey findings and insights with MoF, MoIA and relevant donor-funded projects last April, where there were some discussions on coordination as well as adopting RIMS survey approach. This will be followed up with future events

reviewing progress and performance, to be held in the project area and attended also by representatives of local stakeholders and the target group.

62. **Partnerships.** The overall assessment of the partnership is moderately satisfactory. The Mongolian Society for Rangeland Management (MSRM) and the Union of Mongolian Production and Services Cooperatives (UMPSC) were contracted in June 2012 to respectively implement the pasture management and climate change adaptation component and the micro- and small enterprises development sub-component. An evaluation of the performance of both NGOs has been carried out in the first quarter of 2013 by the evaluation office of the Ministry of Industry and Agriculture resulting in a scoring of 71% and 86% respectively (low score for the MSRM is mainly due to delay in implementing some activities, delay resolved as of today). The MSRM has established a local implementation structure in all 15 Soums and all local facilitators have received training. As for the UMPSC, weaknesses in the implementation set up have been addressed in the new contract that, on top of the 5 aimag facilitators, also includes 20 soum facilitators for a closer monitoring of groups.

63. Partnership with governmental funds (Employment Generation Fund and SMEs Development Fund) has not yet been formalized mainly due to the delay in the start-up of the LGF. This partnership is essential for project-supported beneficiaries as to access loans at sustainable concessional interest rate. The LGF Unit and the MoF should revitalize the partnership with the MoL, monitoring both governmental funds, to ensure sufficient funds would be allocated in project soums to face the incremental demand for credit emanating from project-supported beneficiaries. Any failure to conclude a partnership with the MoL and its funds will be detrimental not only to project-supported beneficiaries but for the whole project as well.

Agreed action	Responsibility	Agreed date
Explore use of remote sensing and GIS for pasture health monitoring	PMU	30 August 2013
Train NGOs local facilitators in M&E data collection	PMU	30 August 2013
Implement a dynamic follow-up on a sample of PHGs, women, herders and producers' groups	PMU/NGO (MSRM & UMPSC)	From August 2013 onward
Issue an action plan on GIS information and its use	PMU	August 2013
Organize the experience workshop with stakeholders of both components sharing	PMU	November 2013

E. Fiduciary aspects

64. **Financial management.** The overall assessment of financial management is moderately satisfactory. The PMU continues to maintain satisfactory up-to-date financial records of transactions and produces timely and reliable periodic financial reports. Accounting data in the PMU accounting system is reliable. The Mission noted that several agreed actions in 2012 supervision mission have been implemented by the Project. To ensure segregation of duties, the Project assigned PMU's M&E officer as the Cashier and Market Development coordinator as the Inventory Clerk. While the improvement has made on the segregation of duties, to ensure the efficiency of the PMU administration, it is advisable that the Office Assistant be functioning as the cashier. Notwithstanding the above-mentioned improvement, the Project should make efforts to resolve few pending issues from last year's recommendation including (i) the reimbursement of the custom duties (imported taxes) amounting to approximately USD 1 867.65 paid against IFAD resources; and (ii) the final certified audit report, which was not received by IFAD as of 6 July, 2013.

65. **Disbursement.** The performance of program disbursement is rated satisfactory. The first disbursement took place on 26 December 2011, which was almost four months from the Project effectiveness. No withdrawal application/replenishment to the DA was made in 2012. In 2013, three WAs were disbursed: two WAs for IFAD Loan in the amount of USD 1 347 408 and one WA for the GEF Grant in the amount of USD 139 914.88. The disbursement rate picked up due to the payment to the LGF (amounting to USD 0.9 million). As of 30 June 2013, the Designated Account of the Loan has been credited with a cumulative total of USD 2 847 408 or 26% of the IFAD Loan and USD 389 923.22 or 26% of the GEF Grant, which includes the initial deposits of USD 1.5 million for the IFAD Loan and USD 0.25 million for the GEF Grant. Two pending WAs for replenishment stood at about USD 436 630.58 including USD 300 000 for the Credit Line from the Loan and USD 57 393 from the Grant. The physical progress represents 31% (loan) and 35% (grant) and 48% (Government taxes contribution) of the cumulative AWP&B as of 30 June 2013. In order to facilitate loan and grant

administration and disbursement efficiencies and to promote best practice, the mission recommends that WAs requesting a replenishment of the Designated Account cover approximately twenty per cent of the Authorised Allocation or 90 days of eligible expenditure incurred from the said Account, whichever occurs first.

66. The management of the Designated Account, the reconciliation of project accounts, the Withdrawal Applications and SOE's were reviewed by the mission. Major improvements in managing the funds flow from DA to Project Account by MoF has been noted and the PMU in ensuring sufficient balances to meet funds requirements of planned activities. DA reconciliation was prepared correctly. The mission recommends that the project conducts monthly reconciliations instead of the current reconciliation when preparing WAs. A review of all the supporting documentation for the selected sample was found satisfactory. SOEs were prepared properly and expenditures were classified as per Loan/Grant categories and percentage of financing calculated as per schedule II of the Financing agreement. The Project still needs to submit the recalculation of the equivalent USD for a previous WA to get replenishment by applying the actual exchange rate. A new WA to reflect the difference /adjustment should be submitted for replenishment.

67. The mission agreed that three additional LGF Unit Project Accounts be opened and maintained in local currency to receive and hold funds for the operations of the Guarantee Facility, the Credit Line and income from fees and interest for the LGF Unit, respectively. These Project Accounts will be operated by the LGF Unit. In addition, the following arrangements were reached with the PMU and LGF Unit: (i) for the credit line: credit line proceeds will flow from DA to the LGF Unit credit line Project Account. Once conditions of prior disbursements specified in the SLA are fulfilled, the LGF Unit will transfer the credit proceeds to the relevant banks in the amount specified in the SFA. Subsequently, the LGS will submit the evidence of payment of the relevant banks to the PMU. Upon receipt of evidence of payments showing the currency and amount actually transferred to the partner banks, the PMU shall recognize them as expenditures and submit a WA to IFAD to replenish the DA. The LGF Unit shall submit quarterly reports related to the usage of the credit line for PMU bookkeeping and reporting consolidation; and (ii) for the guarantee facility: To date, a first tranche of in the amount of USD 0.9 million for the LGF guarantee activity has been made to the DA. The PMU should convert this advance to local currency and deposit it in the LGF Unit loan guarantee Project Account managed by the LGF Unit based on the request of LGF Unit. The balance of allocated resources (USD 1.9 million) will be transferred from IFAD based on a WA and a statement of committed funds which proves that at least 75% of the first advance has been committed to cover the risk of credits to participating banks as intended. The LGF shall submit quarterly reports to the PMU accompanying its financial statements and analysis of its performance (analysis of the loan performance, rate of repayment, rate of delinquency and specific information on the portfolio at risk as specified in the LGF manual of procedures).

68. **Counterpart funds.** The overall assessment of counterpart funds is moderately satisfactory. The Government contribution to PMPMD is limited to taxes and duties by means of full tax exemption from imported duties and taxes for all purchases under the project. As of 30 June 2013, a total contribution of counterpart funds was amounting to approximately USD 31 250 (3% of the total planned Government contribution). Overall, the tax exemption has been followed well. However, there were a few cases where the project purchased imported goods from the local market, but did not have the privilege to get import taxes refunded. During the mission, the PMU confirmed that custom duties (imported taxes) amounting to approximately USD 1 867.65 was charged against IFAD loan resources and still not reimbursed by the Government. According to the Government Custom Tariff Regulation, imported taxes paid for goods cannot be refunded, thus the to-date pending status. In accordance with the Financing Agreement and IFAD General Conditions, the Borrower/Recipient shall exempt all duties and taxes associated with the project. Thus, IFAD will reduce the requested amount of the next WA by USD 1,867.65, which should be financed by additional government counterpart fund contribution.

69. **Compliance with loan covenants.** The overall assessment of compliance with loan covenants is moderately satisfactory. In general, most covenants of the Financing Agreement have been complied or are being complied with the exception of (i) delay in the submission of the 2013 Audit Report; and (ii) custom duties paid against IFAD Loan and not yet reimbursed by the Government.

70. **Procurement.** The overall rating of procurement maintained is moderately satisfactory. The mission verified that the PMU currently does not maintain an adequate tracking of assets purchased

for the beneficiaries as part of its internal control framework. The mission recommends the establishment of an inventory system recording primary information such as engine, chassis or serial numbers, location and type of assets, date of delivery with acknowledgment by beneficiaries. The PMU submitted two requests for proposal (RFP) in English for the selection of services providers for the pasture management component and support for women's group and micro enterprise development subcomponent. IFAD undertook a review of the RFP's during the course of the mission as a hands-on training to the PMU Procurement Officer. Significant inconsistencies between the draft RFP in English and the RFP in Mongolian have been noted which can cause the RFP in English to be rendered as incomplete, inaccurate or misleading, resulting in an IFAD-sanctioned mis-procurement. The mission recommends the PMU in cooperation with MoIA, MoF and the Procurement Department of MOF seeks the services of a legal firm with adequate working knowledge on Mongolian procurement law to review and produce a legally translated and conformed copy of the standard bid documents for goods and works and request for proposal for services for IFAD prior review purposes.

71. **Audit.** Quality and timeliness of audits is moderately satisfactory. The mission received the first Audit Report in Mongolian language on 29 June 2013, which covered the project implementation and activities for the period from 26 August 2011 (entry into force) to 31 December 2012. However, the final English version of the Audit Report was not available by the deadline of June 30. The General Audit Office conducted the audit by using the International Audit Standards (IAS) and Government Audit Standards. The mission reviewed the draft English version of the audit report, in which the auditors expressed an unqualified opinion on the financial statements, Special Account and WAs/SOEs. The mission noted that the auditors were not able to undertake field visits. In that respect, it was agreed that auditors will include field examinations when conducting their 2013 audit work. The Audit Report should be translated by the Auditors and not by the PMU as currently done. Finally, the mission was pleased to note that the PMU submitted the consolidated unaudited semi-annual financial statements to IFAD within the time period specified in the LTB.

Agreed action	Responsibility	Agreed date
Reduce the requested amount of the next WA as a compensation for tax unduly charged to IFAD Loan to be paid from government counterpart contribution	IFAD	August 2013
Conduct monthly bank reconciliation	PMU	Immediately
Maintain an inventory book of equipment transferred to PHGs and undertake periodic controls	PMU	Immediately
Audit report to be translated in English by the auditors	Auditors	Immediately
Adjust exchange loss in PMPMD financial statements due to misapplication of wrong exchange rate	PMU	30 September 2013
Implement a procedure for timely replenishment of the Designated Account	PMU	Immediately
Obtain from a law firm a certified English translation of the SBD and the RFP	PMU	Immediately

F. Sustainability

72. **Institutional sustainability.** The project design emphasizes institutional development as key strategy for sustainable outcomes. The support to herder groups that are based on their customary pasture areas, and the applied methodology of defining/re-confirming these boundaries with not only member households, but with households from neighboring areas as well as with *bag* and *soum* government officials, is a key step to build a basis for sustainable herder institutions for pasture management. As the legal framework is being developed, with a new procedure on pasture land possession and management, and amendments to the legal framework for cooperatives, the mission recommends the project-supported training program to be adapted to this new environment. Training of trainers and in facilitation skills should also be provided to local facilitators and extension officers enabling them to further support group strengthening.

73. Building local capacity is a key element for institutional sustainability, and it is therefore particularly important to enhance local officers skills not only in the area of technical expertise but also in planning and monitoring procedures as prescribed by existing guidelines and policies. In training design and delivery, the relevant government agencies and departments at central and *aimag* level

should play a significant role while that of the service provider should be more of a facilitator one, building the capacity of local structures, rather than delivering all trainings itself. While a budget increase should be explored to deliver more frequent trainings to a larger number of beneficiaries including group members, the provision of such trainings by government officers of the respective line agencies would minimize this budget increase. Additional training needs and expertise required, from service provider's experts or sub-contractors, should be identified by the TWG. In that respect, a more balanced distribution between technical trainings and trainings related to extension, planning and organizational development should be adopted by the NGO and the project.

74. **Social sustainability (Empowerment).** Capacity building of herders, strengthening their institutions, improving collaboration with local government lead to empowerment and social sustainability. Through group formation, not only natural resource management issues are being addressed; also governance is improved as the dialogue with local government, and flow of information from government to rural citizens, is improved. Legislation that will define use and possession rights will be an important step to promote empowerment of the primary resource managers, the livestock herders and their institutions, to encourage investment into natural resource management, and to make resource management decisions and develop their livelihoods based on more secure resource use tenure. Other legislation, such as legislation to decentralize budget planning and decision making on budget expenditures for local development provide an supportive environment for social sustainability in the context of project results. Finally, promotion of legal entities such as cooperatives will also contribute to the empowerment of their members.

75. **Economic and financial sustainability.** Government policy and incentives support collective action of herders and in particular their organization in cooperatives as legal entities, for both production and marketing. The project, through the service provider, is actively supporting this approach. Importantly, however, existing groups are encouraged to self-determine the most suitable option for them to comply with the government policy. The legal environment, with the enforcement of the Agricultural Commodities Exchange Law in 2011, is conducive to collective production and marketing efforts supported by the project, and new amendments to the Cooperative Law will provide further benefits for herders.

76. An important initial step for economic sustainability is the establishment of guidelines for the distribution, selection of recipients, operations and maintenance of the equipment and facilities provided by the project to the PHGs and the development of PHGs members capacity to manage these equipment and facilities with project support. Project investments therefore make an important contribution to build financial capacity of groups and prepare them for further economic activities in the future. Access to financial and non-financial services for project-supported beneficiaries enables them to develop their businesses in a sustain able way, hence gradually enhancing their income and financial capacity, as well as building up their assets base.

77. LGF Unit financial sustainability is expected to be ensured by the financial income generated by its activity (fees paid by banks on guaranteed loans) and by the investment of its resources in secured financial instruments. This financial income will enable the LGF Unit to cover its operating expenses, pay out accepted claims and increase its LGF resources, thus increasing its outreach and guarantee capacity.

78. **Technical sustainability.** The transfer of ownership of investments promoted by the project as well as their shared usage for the benefit of each member of the community constitute key elements to ensure technical sustainability. In addition, the promotion by the project of a specific mechanism funded by the community incentivizes maintenance and care for technical investments. Moreover, the preparation of investment plans together with local government are conducive to investment support that meets local needs. Finally, trainings of community members also contribute to technical sustainability.

79. **Environmental sustainability.** Collaboration among herders, and of herders' organizations with local government has proven to be an important strategy to facilitate adoption of good practices in pasture land management such as rotation and resting. Community-based rangeland management has also been recognized as a driving factor to build resilience and adaptive capacity of pastoral communities in rural Mongolia. The loss of water sources is a key manifestation of climate change in Mongolia, resulting in further concentration of herds around remaining water sources. The protection of springs, and collective action in riparian protection and rehabilitation are important environmental strategies, and the construction and rehabilitation of wells, along with *soum*-wide enforcement of

pasture land management plans, are important measures in pasture land management. The project's contribution to establishing hay and fodder storage facilities enable herders to respond to extreme events and reduce their vulnerability. In addition, on-going training of herders and of local officers in best practices in pasture management, soil conservation, watershed management and protection contribute to environmental sustainability.

80. **Exit strategy.** The exit strategy is embedded in the project's design and its implementation through sustainable public and private institutions. The PMPMD LGF scheme will merge with the existing Credit Guarantee Fund to form an institution that will be able to cover the risk associated with loans extended to types of activities in both urban and rural areas. Experience gained by the PMPMD LGF Unit will be key to this new institution. In compliance with the new governmental policy, the project will assist its beneficiaries to transform their informal groups promoted as a first step by the project into more appropriate legal entities such as cooperatives. Inclusion of these cooperatives and of project-supported beneficiaries in strengthened value chains will also pave the way for their long-term institutional and financial sustainability. A key aspect of the exit strategy for PHGs is the integration of their pasture management plans into the soum-wide pasture land management plan as a routine procedure, jointly monitored and evaluated and endorsed by local government. The mission recommends that the PMU should start the preparation of an exit strategy in early 2014 for review by the MTR mission.

G. Other

81. **Food security.** It is too early to measure and assess the project impact on food security. Herder group organization promotes opportunities for diversification of livelihood strategies through labor division (vegetable growing, for subsistence and selling), as well as for value addition (dairy processing) and others, thus contributing to food security. Management practices promoted by groups for pasture land, pasture irrigation, and protection of water resources all contribute to improving pasture condition. This, along with activities for animal health and breeding, will impact livestock quality as well as survival rate, thereby contributing to food security. On the long term, with the project support to cooperatives, taking advantage of new legislation, positive impacts on food security are likely to be achieved in several ways – the production is increased through better managed pastures and improved livestock quality, and the exchange of agricultural commodities is supported through cooperatives development.

82. **Increase in incomes.** In the absence of any activity related to access to financial resources for project-supported groups under both components, increase in the income of project-support beneficiaries cannot yet be measured. A possible increase in income will be measured in 2014 for the first time once the 110 women groups formed by the NGO will have been financed by partner banks and the associated risk covered by the LGF.

83. **Policy impact.** The project provides opportunities for informing policy-making with respect to herders' institutions and pasture management and on how to link them to production and marketing mechanisms. There is significant potential that project activities in pasture management, cooperatives development and climate change adaptation generate experiences relevant to policies for implementing new legislations related to pasture land possession and management, soil conservation, decentralized budgeting procedures, agricultural commodities exchange and cooperatives. With regards to cooperatives, the project should play a more proactive role in advocating tax incentives for newly created cooperatives such as a temporary tax exemption. Such a measure would constitute a strong incentive for group members to adopt the cooperative legal status.

H. Conclusion

84. The project is on track to complete its activities as planned in the 2013 AWP&B, especially with regards to the Pasture Management and Climate Change Adaptation component. However, the slow implementation of the Market Development component could negatively impact the implementation of the whole project. In order to ensure smooth implementation of the project and its two inter-linked and integral components and to achieve the agreed development objectives, we encourage the project management and its implementing partners to focus on the following priorities:

- (i) Immediate recruitment of the Value Chain Coordinator, start the identification of value chain potential activities in each *soums/aimags* under the project and proceed to value chain analysis on technical, financial and marketing aspects;
- (ii) Conclude the agreement with the Ministry of Labour regarding the use of resources of both the Employment Generation Fund and SMEs Development Fund and further explore possibilities to access funds from other development programs (JICA Two-Step loan) to support the PMPMD target group;
- (iii) The MOF LGU Unit to submit as soon as possible the revised LGF manual of procedures for the credit line and guarantee facility scheme to IFAD for its review;
- (iv) Transfer the credit line proceeds according to the Subsidiary Loan Agreements so as to enable financing of the loan applications from the PMPMD supported women's groups by partner banks;
- (v) Review all PMPMD supported women's groups' business plans to improve their quality up to banks' requirements and ensure at least 70% financing rate;
- (vi) Expedite the approval of the institutional and financial set-up of guidelines for the PHGs;
- (vii) Contract an authorised entity or Law firm to review and issue a certified legal opinion of all documents issued by the LGF Unit (guarantee contracts and agreements) and a certified English translation of the Standard Bid Documents and Request for Proposals;
- (viii) Endorsement of the LGF manual of procedures for the credit line and guarantee facility scheme by the LGF Technical Committee and the PMPMD Steering Committee;
- (ix) Further improvement of the M&E system, especially at the level of the services providers for the pasture management component and support for women's group and micro enterprise development subcomponent with additional support and training to implement an effective data collection mechanism and dynamic follow-up of project-supported groups financed;
- (x) Further monitor trainings provided by the services providers for the pasture management component and support for women's group and micro enterprise development subcomponent through control and feed-back focus groups with trainees and local authorities;
- (xi) Undertake a PHGs needs assessment prior to further distribution of equipment and facilities to the PHGs and consider the provision of equipment and facilities based on a *soum* level needs assessment (spring fencing).

85. A specialist from IFAD will participate in the planned training workshop for Market Development component at the end of September 2013. This will be followed by a Knowledge Sharing Workshop to be organized in October/November 2013. The Mid-Term Review mission is planned for August or September 2014.

86. Signed by the parties named below on 8th July 2013 in Ulan Bator, Mongolia.

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Thierry Mahieux
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Appendix 1: Summary of project status and ratings

Basic Facts

Country	Mongolia		Project ID	1455	Loan/DSF Grant No.	836
Project	Project for Market and Pasture Management Development				Top-up Loan/DSF Grant	
Date of Update	07-July-2013					
Supervising Inst.	IFAD/IFAD					
No. of Supervisions	1	No. of Implementation Support/Follow-up missions	1			
Last Supervision	Nov. 2012	Last Implementation Support/Follow-up mission	Feb/March 2013			

					USD million	Disb. rate %
Approval	11-May-2011			Total financing	18.37	
Agreement	17-Jun-2011	Effectiveness lag	3.6	IFAD Total	11.48	
Entry into force	26-Aug-2011	PAR value	Not at risk	IFAD loan	2 847 408	26%
First disbursement				DSF grant		
MTR		Last amendment		IFAD grant		
Original completion	30-Sep-2016	Last audit	Dec. 2012	Domestic Total	5.38	
Current completion	30-Sep-2016			Beneficiaries	1.83	0.0%
Original closing	31-Mar-2017			Government (National)	0.90	3%
Current closing	31-Mar-2017			Domes. Fin. Inst.	2.66	0.0%
No. of extensions	0			External Cofinancing Total	1.50	
				GEF	389 923.22	26%

Project Performance Ratings

B.1 Fiduciary Aspects	Last	Current	B.2 Project implementation progress	Last	Current
1. Quality of financial management	4	4	1. Quality of project management	5	4
2. Acceptable disbursement rate	6	5	2. Performance of M&E	4	4
3. Counterpart funds	4	4	3. Coherence between AWPB & implementation	5	4
4. Compliance with financing covenants	4	4	4. Gender focus	4	5
5. Compliance with procurement	4	4	5. Poverty focus	4	4
6. Quality and timeliness of audits	4	4	6. Effectiveness of targeting approach	4	4
			7. Innovation and learning	4	4
			8. Climate and environment focus		4
B.3 Outputs and outcomes	Last	Current	B.4 Sustainability	Last	Current
1. Value Chain Development	4	2	1. Institution building (organizations, etc.)	4	4
2. Small and Micro-enterprise development	4	4	2. Empowerment	4	4
3. Loan Guarantees	4	4	3. Quality of beneficiary participation	4	4
4. Pasture Management	4	5	4. Responsiveness of service providers	4	4
5. Resilience to Climate Change	4	5	5. Exit strategy (readiness and quality)	4	4
			6. Potential for scaling up and replication	4	4

B.5 Justification of ratings

Progress for the first component is unsatisfactory because of (i) the non-recruitment of the value chain coordinator; (ii) longer than expected negotiations with commercial banks for the line of credit and the guarantee contracts, and (iii) absence of commitment from governmental funds to finance loans to PMPMD beneficiaries that will be guaranteed by the PMPMD LGF. Other component (pasture management and climate change adaptation) after a slow start is now well and timely implemented.

Overall Assessment and Risk Profile

		Last	Current
C.1	Physical/financial assets	4	4
C.2	Food security	4	4
C.3	Quality of natural asset improvement and climate resilience		4
C.4	Overall implementation progress (Sections B1 and B2)	4	4
<p>Rationale for implementation progress rating : PMPMD is well and timely implemented and benefits from the experience and procedure developed under the previous RPRP project. The targeting approach (gender and poverty focus) is effective. After a slow start, climate and environmental focus is now also well implemented. The recruitment of the pasture management specialist at the PMPMD PMU has boosted the implementation and activities of the related component.</p>			
C.5	Likelihood of achieving the development objectives (section B3 and B4)	4	4
<p>Rationale for development objectives rating: Development objectives are likely to be achieved subject to the immediate recruitment of the value chain coordinator and the agreement with the Governmental Development Funds. The Government of Mongolia during the wrap-up meeting expressed its commitment to diligently expedite these issues, so as to absorb the current delay. All instruments for both components are now in place concurring to the achievement of the PMPMD development objectives. The inclusion of local representatives from line ministries in all trainings (as trainees) will also contribute to a sustainable implementation of the project and the achievement of its objectives.</p>			
C.6	Risks <i>Short description of major risks for each section and their impact on achievement of development objectives and sustainability</i>		
	Fiduciary aspects	No major risk identified	
	Project implementation progress	No major risk identified	
	Outputs and outcomes	<p>Another delay in the recruitment of the value chain coordinator would not only put the 'Market Development ' component in jeopardy but also the Pasture Management one since Pasture Herders' Groups need to be integrated in strengthened value chains in order to become sustainable. This becomes even more important with the promotion of cooperatives by the Government.</p> <p>Another risk identified is the lack of expertise from commercial banks vis-à-vis a Guarantee Fund. An 'inception workshop' coupled with a short-training session for all stakeholders of the 'Market Development ' component would mitigate the risk of having the guarantee facility remaining unused.</p> <p>Finally, any absence of agreement with the Ministry of Labor that is the monitoring agency of both the Employment Generation Fund and the SMEs Development Fund would result in banks having to extend loans to PMPMD target beneficiaries at unfavorable and unsustainable terms and conditions, preventing them to develop their business, improve their income and livelihoods.</p>	
	Sustainability	<p>No major risk identified. PMPMD PMU monitoring of training activities carried out by the two selected NGOs should be more effective, in order to ensure quality of training modules proposed.</p>	

Proposed Follow-up

Issue / Problem	Recommended Action	Timing	Status
Timid response from financial sector to PMPMD	A Guarantee Facility such as the one implemented under the PMPMD is new for many commercial banks. The financing mechanism is complex as it builds on financial resources allocated by the government in each soum and synergy should be sought with the Ministry of Labor for a joint financial and training planning so as to maximize the impact of both the project and the governmental funds. IFAD will field a mission in late September to moderate a specific 'inception workshop' of the Market Development component coupled with specific short-term training for partner banks.	September 2013	Planned

Additional observations: The Knowledge Sharing Workshop initially planned in July 2013 will take place in November/December 2013, organized by the PMU. This workshop will concern both components. IFAD will participate in this workshop (M&E and pasture management specialist).

Appendix 2: Updated logical framework: Progress against objectives, outcomes and outputs

	Narrative Summary	Verifiable Indicators	Means Of Verification	Assumptions/Risks
Goal	Empower poor rural women and men to achieve higher incomes and sustainable improvements in their livelihoods.	National poverty incidence.	National poverty statistics.	-Political stability. -Major shocks or crises do not weaken project effects.
Development Objective	Reduce poverty and improve livelihoods of poor herder and soum and aimag center households in the project area.	<ul style="list-style-type: none"> -Improvements in household assets ownership index -Reduction in prevalence of child malnutrition; -Improvements in household income; -poverty incidence in project area. 	<ul style="list-style-type: none"> - Baseline and completion impact (including RIMS). - UNICEF and UNDP child nutrition and poverty assessments. 	- Political stability. - Major shocks or crises which could weaken project effects do not occur; or are sufficiently mitigated.
1	Pro-poor value chain strengthening in Soum and Aimag centres			
1.1.1	5 500 producers are organised in around 120 groups and able to ensure a higher value of sales.	<ul style="list-style-type: none"> . 120 groups formed and HHs participating; . 30% increase in producer HHs sales and net revenue. 	NGO and group records.	Governmental Development Funds resources sufficient to be sued by commercial banks to provide credit to IFAD target group if loan risk mitigated.
1.1.2	5 500 producers establish sustainable commercial linkages with regular buyers in local and national markets.	<ul style="list-style-type: none"> . 4 500 (80%) HHs signing formal, medium-term contracts; . At least 80% of business plan financing requirements met (grants + bank credits/GF secured); . Terms of sales contracts fulfilled (sales orders fulfilled, payments made by buyers on time). 	<ul style="list-style-type: none"> . Producer Group records; . Business plan and SME balance sheet; . Producer group and value chain partners accounts. 	
1.1.3	500 HHs enter into 5 commercial, collective arrangements that share risk and profit with private sector partners.	<ul style="list-style-type: none"> . Risk- and profit-sharing mechanisms designed and agreed with 500 HHs; . 5 SMEs registered and operating in accordance with MoU; . Income statements show profits by Y2; Profit distribution equitable. 	<ul style="list-style-type: none"> . MoU between PGs, PMU and private sector; . SME registration records and income statements; . SME earnings and dividend records. 	Sufficient production and market demand to form 120 groups.
1.2.1	5 500 women have knowledge and skills needed for generating savings and accessing credit from own resources or externally.	<ul style="list-style-type: none"> # of WGs formed & # of members; . % of WGs meeting savings targets; . % of mobilized savings on-lent to members; . # of bank loans issued to WGs. 	<ul style="list-style-type: none"> . NGO and group records; . Bank and LGF records. 	Local market continues to value herder products even in face of cheaper food import prices.
1.2.2	Poor herder HHs are able to access formal financial services.	# of applicants who secure loans for the first time.	Producer and Women Group records.	
2	Improved pasture management and resilience to climate change			
2.1	4 050 Herder households collaborate effectively in joint management of pastures, executing 120 PMPs.	<ul style="list-style-type: none"> . Number of PMPs issued; . 95% of PHG member HHs moving on time in relation to PMP spring/summer pasture rotation targets. . Number of violations of PMP. . Improvement in pasture health. 	<ul style="list-style-type: none"> . <i>Soum</i> admin records. . NGO & PHG records. . Remote-sensing and GIS. . <i>Soum</i> Meteorological Pasture Monitoring + NGO soum coordinator spot checks. 	Adoption of the pasture law. Continued (local) government support for the implementation of the Land Law.
2.2	4 050 Herder households are better able to cope with climate variability and extreme events.	<ul style="list-style-type: none"> . Livestock mortality & livestock diseases. . Milk and meat yields. . % of PHGs that increase hay-making and fodder production to the original group target level. 	<ul style="list-style-type: none"> . PHG annual reports; . Focus group discussions; . <i>Soum</i> and <i>Bag</i> administrative records. 	No major violations of reserved areas by non-member herders.
2.3	Herder Group's PMPs are integrated, and actively enforced by local government (policies, regulations, budget).	<ul style="list-style-type: none"> . At least 3 <i>aimags</i> and 12 <i>soums</i> allocate budgets for direct support to PMPs; . Number of user-rights contracts between <i>Soum</i> governments and PHGs. 	Local government expenditure records and PHG records; NGO records.	

Appendix 3: Summary of key actions to be taken within agreed timeframes

Action Area	Action Agreed	Date	Whom	Progress
Project Implementation				
M. & E.	Train NGOs local facilitators in M&E data collection	August 2013	PMU	
	Implement a dynamic follow-up on PHGs, women's groups, herders' and producers' groups	August 2013 onward	PMU & NGOs (MSRM & UMPSC)	
	Organize Experience Sharing Workshop	Nov./Dec. 2013	PMU	
Outputs				
Pasture Management and Climate Change Adaptation				
Pasture Management	Design specific templates for training provided by NGO including trainees' reporting and evaluation of training	July 2013	PMU	
	Assist PHGs to designate their pasture land management focal points	July 2013 onward	PMU & PHGs members	
	Expedite GoM approval for PHGs guidelines and Revolving Fund procedures, seek IFAD no-objection and implement controls on compliance	July 2013	MoF/MoIA/IFAF/PMU & NGO (MSRM)	
Climate Change Adaptation	Undertake investment needs assessment for each PHG and at soum level if necessary	July 2013 onward	PMU & NGO (MSRM)	
	Explore 3 options for meteorological weather stations: (i) finance only 4 or 5 units with prioritization; (ii) identify additional budget to finance the initially 15 units planned, (iii) convert budget from investment to strengthening information dissemination process	End of July 2013	PMU & NAMEM	
	Cancel insurance training planned in September 2013 in waiting for the outcome of the pilot Group Insurance	Immediately	PMU	
Market Development				
Value Chain Development	Recruit Value Chain Coordinator	Immediately	LGF Unit	
Small and micro-enterprises development	Review all women's groups business plans and loan applications, submit to partner banks in two batches while assisting 2 nd batch to improve their plans	Immediately	NGO (UMPSC)	
Guarantee Facility				
	Contract an authorized government agency or legal firm to issue a legal opinion on compliance of LGF documents with Commercial Law, Law on Guarantee Funds and Mongol Bank regulations	Immediately	LGF Unit	
	Organize an inception workshop for Market development component stakeholders	End Sept. 2013	LGF unit	
	Endorse Manual of Procedures for Guarantee Facility and Credit Line by LGF Technical Committee and PMPMD Steering Committee	July 2013	LGF TC & PMPMD SC	
	Issue a Joint Order of State Secretaries related to the use of EGF and SMEs Development Fund resources to finance PMPMD target groups	Immediately	MoF; MoIA & MoL	
	Advocate use of interests generated by financial investments of LGF resources to cover operating costs and increase LGF resources	Immediately	LGF Unit	

Sustainability	Advocate amendments on SMEs Development Fund and EGF policy	Immediately	PMU & LGF unit
Fiduciary Aspects			
Financial Management	Reduce the requested amount of the next WA as a compensation for tax unduly charged against IFAD loan	August 2013	PMU
	Conduct monthly bank reconciliation	Immediately	PMU
	Implement procedures for timely replenishment of Designated Account	Immediately	PMU
	Maintain an inventory logbook of equipment transferred to PHGs	Immediately	PMU
Procurement	Obtain from a law firm a certified English translation of SBDs and RFPs	Immediately	PMU
Other			

Appendix 3a: Follow-Up on previous missions' recommendations

Implementation status of recommendations formulated by the Project implementation Support mission, March 2013

	Agreed actions	Responsible	Agreed date	Implementation status
1	Contract extension with UMPSC and MSRM and new bidding process for services for pasture management and women's group / microfinance sub component for the remaining project implementation period	PMU, UMPSC and MSRM	As specified in paragraph 7 of the aide memoire	Contract with UMPSC and MSRM has been extended until 1 August 2013. The invitation for EoI for NGOs has been announced in two daily newspapers on 21 May. ToR for the required experts and budgets were reviewed by IFAD and no objection was provided. Bidding process and contracting will be finalized by 1 September 2013. Selected NGOs will be contracted until the end of the project (yearly duration with annual renewal based on performance assessment). Bidding committee was established by State Secretary's order at MOIA. Complied
2	Expediting the implementation of the value chain sub-component	PMU and MOF	By 31 st March 2013	As provided in para 8 of the Aide memoire, LGF should recruit a coordinator for Value Chain Development. So far no progress has been made. PMU has established a working group for value chain activities by the order of the State Secretary of MOIA. Most of members of this working group are relevant officers of MoIA. The objective of this working group is to coordinate the project's activities with similar projects and provide technical advices to PMPMD Steering Committee. At wrap-up meeting, MoF representative commits to the recruitment of the Value Chain Coordinator by end of July (with a specific committee formed with representatives from MoF, MoIA, PMU and LGF unit). Financial expert is already recruited (LGF Unit Manager). Short-term technical experts have not yet been identified. Value chain identification and analysis to begin in September 2013. Not complied
3	PMU to organize a cross-visit to the AVSF supported activities in Arkhangai aimag for possible replication and up-scaling in PMPMD target soums and aimags	PMU, AVSF, MOF, UMPSC and MSRM	By 30 th April	The coordinator for pasture management and climate change adaptation component worked in Arkhangai aimag to participate in the project start-up workshop from 22 to 23 April. He visited the local officer of AVSF and met with Mr. Maxim Pernel, chief technical adviser. Discussion focused on sharing experiences on value chain strengthening (AVSF) and groups formation (PMPMD). Once PMPMD Value Chain coordinator is recruited, AVSF will work with him on the yak wool value chain. Complied
4	PMU to follow-up with MoF on the countersigning of Amendment letter and send 3 countersigned amendment letter to IFAD	IFAD, MOF and PMU	By 31 st March 2013	Done. On behalf of the Government of Mongolia, the Minister for Finance signed the letter of Amendment. Complied
5	Implementation of the agreed road map for LGF and IFAD loan financed credit line	MOF and PMU	As specified in the agreed road map	LGF Technical Committee was established by the resolution of the Chairperson of PSC on 11 th April 2013. This committee is composed of 6 members from MoF, MoIA and MoL. IFAD desk officer at MoF is a secretary of this committee. LGF TC appointed Ms. Bayarmaa as Manager of the LGF. LGF Manuals of Procedures for guarantee scheme and credit line reviewed to include remarks from commercial banks. Reviewed and approved by IFAD. Not yet endorsed by LGF TC and PMPMD Steering Committee.

				Subsidiary Loan Agreement approved by IFAD and signed with Savings Bank and Capital Bank Guarantee Contracts signed by Savings Bank and Capital Bank Khaan Bank to sign both SLA and GC before end of July 2013 USD 300 000 transferred to the LGF Unit Credit Line account. USD 200 000 transferred to Savings Bank for on-lending to women's groups USD 900 000 to be transferred from PMU Designated Account to LGF Guarantee Facility account (as a first tranche, balance of remaining funds USD 2 million to be transferred once 75% of the first tranche has been committed) Office for LGF Unit rented Procurement of vehicle on-going Accounting, M&E and reporting systems have been set up in compliance with the existing PMU systems LGF Finance officer of LGF has been duly appointed No agreement reached between PMPMD PMU/LGF Unit and MoL's supervised Employment Generation Fund and SMEs Development Fund as for the financing of loans to PMPMD target beneficiaries Being complied
6	The following operational documents sent to the project : (i) Operational manual for the LGF (ii) Operational manual for the IFAD loan financed credit line; (iii) sample guarantee contract for portfolio guarantees (iv) sample guarantee agreement for individual guarantees (v) sample subsidiary loan agreement for the IFAD loan financed credit line between MOF and participating banks (vi) LGF financial projection	IFAD		Done
7	PMU will communicate the possible sources of discrepancies in the designated accounts for the GEF grant and IFAD loan with the finance officer of IFAD directly copy to the IFAD Country programme manager	PMU	By 15 th March 2014	WA 2 was delivered to CPM and finance specialist of IFAD with explanation of discrepancies Complied
8	PMU to submit to IFAD the reports referred in paragraph 13 of the Aide memoire	PMU	As specified in para 13 of the aide memoire	RIMs annual report, physical progress report, financial statement, progress reports of NGOs were submitted to IFAD on time. Audit is in progress. Complied
9	Supervision mission of 2013, with IFAD preparing the mission TOR and composition and with the PMU preparing the required documentation prior to the start of the mission.	IFAD, MOF, MOIA and PMU	From around 24 th June to 10 th July 2013	Complied

Implementation status of recommendations formulated by the Supervision mission, September 2012

Agreed Actions	Responsibility	Agreed Date	Actions taken
1) Value chain development activities: (i) Revise the Terms of Reference for the team of individual consultants; (ii) revise the terms of reference of the NGO already selected under the Pasture Management component; and (iii) procure the services of individual consultants.	PMU	From October 2012 to 1 st quarter 2013	Not complied. See recommendations formulated by the PIM mission in February/March 2013
2) The micro-enterprise development activities: (i) assess the performance of the recruited NGO before contract extension; (ii) second screening of all groups formed; (iii) harmonize the time schedule between groups' training and implementation of guarantee facility; (iv) encourage more pro-active role of the UMPSC to propose alternatives for groups' activities; (v) promote individual borrowing for groups' members; (vi) increase the number of local facilitators to 20 based at each Soum; (vii) use local facilitators as focal points with local governments in Aimags and Soums; (viii) revise 2013 NGO budget to include additional local facilitators' salaries; (ix) stop new groups' formation and training until the PMPMD LGF becomes operational; and (x) decrease the number of targeted women's groups to be formed and trained during the five years of the project from 550 to 360.	PMU, UMPSC and Steering Committee	From October 2012 to the end of March 2013.	Complied. Contract extended until July 2013. New selection of both NGOs for contract running until project completion, one year duration and renewal based on satisfactory performance assessment.
3) The loan guarantee facility implementation: (i) recruit the MOF-Unit staff; (ii) establish the MOF/Unit and Technical Committee; (iii) finalize the Manual of Procedures for implementation; (iv) sign MOU between MOF, MOL, and MOIA; (v) provide training to MOF Unit staff; (vi) sign guarantee contracts with eligible commercial banks; and (vii) expand outreach of the guarantee facility to non-PMPMD beneficiaries subject to compliance with eligibility criteria.	MOF, PMU, the Steering Committee	From October 2012 to the end of 1 st quarter 2013	Complied. SLAs and Guarantee Contracts signed with Savings Bank and Capital Bank.
4) The reallocation of the loan guarantee facility: (i) MOF submit a request for the proposed reallocation of the budgeted USD 3.4 million as follows: a) USD 0.5 million to a credit line for participating banks to complement EGF resources for PMPMD women's groups; b) USD 1.0 million for PMPMD beneficiaries' guarantee purposes; c) USD 1.9 million for other beneficiaries' guarantee purposes; and (ii) PMU submit a withdrawal application to request an transfer USD 1.05 million into the designated Account for the IFAD loan for 2013 activities.	MOF, PMU and IFAD	From October to the end of December 2012.	Complied. Transfers amount to USD 0.3 million for credit line and USD 0.9 million for guarantee scheme.
5) Amend the Financing Agreement (IFAD to send an amendment proposal to the PMU and MOF as part of the supervision report; MOF to send an official request for loan amendment; and IFAD to send an amendment letter to MOF for countersigning).	MOF and IFAD	By the end of December 2012.	Complied
6) To strengthen the functional linkages and synergies between the pasture management and market development components to enable herder groups to benefit from value chain development, particularly through access to credit/guarantee facility.	PMU and the selected service provider.	From 2013 onwards.	Revised ToR for service provider includes value chain trainings as development of the herder groups and cooperatives. Linkages not yet established due to delays with the value chain component. Legal framework on cooperatives is currently under review to remove/address barriers (tax obligations, membership fees) for herder HHs to join and form cooperatives. Partly complied
7) Focus on providing support to institutional issues of group organization for both pasture management and value addition/production and marketing in order to develop sustainable institutions.	PMU and the selected service provider.	From 2013 onwards.	Included in the revised ToR for service provider. Herder advisors started to be appointed. Training on cooperative's management and assistance by NGO to groups to form cooperatives should start in 2015.

Agreed Actions	Responsibility	Agreed Date	Actions taken
			<p>Contracts defining responsibilities of herder groups and local governors are good progress towards strengthening groups. However, training and facilitation with the group members are necessary to build trust and strength and make groups sustainable.</p> <p>Complied</p>
<p>8) Training should be provided by the facilitators and coordinators not only to group leaders but also to all members of the groups.</p>	<p>PMU and the selected service provider.</p>	<p>From 2013 onwards.</p>	<p>Training extended beyond group leaders. However, only few members are participating in training.</p> <p>Complied</p>
<p>9) Training should be provided in transparent and participatory decision making processes to promote inclusive approaches. The training of local facilitators should include knowledge and skills in facilitating group organization and participatory planning.</p>	<p>PMU and the selected service provider.</p>	<p>From 2013 onwards.</p>	<p>Not complied</p>
<p>10) The role of government in pasture land planning and management should be considered and the development of collaborative management, as prescribed by existing planning processes, should be supported. In some Soums, the Rangeland Management and Monitoring Committees promoted by the previous Rural Poverty Reduction Project (RPRP) are present, as NGOs or informal groups, and their role should be promoted as well.</p>	<p>PMU and the selected service provider.</p>	<p>From 2013 onwards.</p>	<p>Included in the revised TOR of Service Provider and draft AWPB. Role of the local government to support herder groups' pasture management planning and implementation included into the contracts between district governors and the Project. Through the start-up workshop each district governors planned their pasture management plan and implementation of the Project activities in their districts together with bag governors, herder group leaders, land and pasture officer and with advice of the pasture experts.</p> <p>Being complied</p>
<p>11) Consult with the Soum governments in the target area to access the Soum Development Fund to complement the PMPMD support to the groups in pasture improvement and management. The allocation from the Soum governments for the PMPMD groups should be reflected in the AWPBs from 2013 onwards.</p>	<p>PMU and UMPSC</p>	<p>Immediately.</p>	<p>Being complied</p>
<p>12) The head and two officers of the Livestock Unit at Soum level are tasked with implementation of the activities of the Mongolian National Livestock Program with 5 components including pasture management, marketing, animal health, breeding and governance. The project activities should have synergy with the program.</p>	<p>PMU and the selected service provider.</p>	<p>From 2013 onwards.</p>	<p>Included in the revised TOR of Service provider and draft AWPB. Role of the soum level livestock unit's officers indicated in the contracts between district governors and the Project.</p> <p>Complied</p>
<p>13) For the sustainability of PMPMD project results and impact, local government support, including the Livestock Unit, is important. The capacity of the livestock program officers varies, and they have few resources to undertake their activities. Capacity development needs of the officers should be assessed and trainings designed and delivered. This is particularly important with a view to developing "herder advisors" – herders with special knowledge and skills to advise their group. The approach of "herder advisors" has generated positive experiences in several donor-supported projects and is promoted by the service provider. In the face of significant challenges in developing a functioning extension service for traditional nomadic herders, this approach is key to capacity development among herders, and should be further pursued. The development of local officers of the Livestock Unit as trainers and support staff is important in this respect. The PMU, with the service provider's input, should closely work with the Livestock Program at central, Aimag and Soum level to ensure synergies.</p>	<p>PMU and the selected service provider.</p>	<p>From 2013 onwards.</p>	<p>Training for Livestock Officers in animal health and in breeding has been organized, and Herders' Advisors (120) have received a first round of trainings.</p> <p>Complied</p>

Agreed Actions	Responsibility	Agreed Date	Actions taken
14) In support of M&E, groups should be encouraged to establish their own indicators (social, environmental and livelihood) as a tool for planning, implementation and assessment of their own activities. Linked to the project M&E system, this can provide a basis for project evaluations, learning and adjustment of strategies.	PMU and the selected service provider.	From 2013 onwards.	Has been included in the revised TOR of Service provider and draft AWPB. Additional capacity building should be provided to NGOs staff with regards to M&E. Partly complied
15) Have prior consultations and participatory planning with the members of the groups, in order to understand their priorities and needs for investment to be provided by the project. The investment priorities of the project supported groups should be consolidated and screened according to the government policy for public investment and reflected in the AWPBs and procurement plans.	PMU and the selected service provider.	From 2013 onwards.	Included in the revised TOR of Service provider and draft AWPB. Not complied
16) Private goods benefiting a limited number of individuals should be avoided from the project financed investment. In case when private goods are provided to the groups under the project, prior consultation with the groups on the ownership, sharing, management and operation and maintenance of the project-provided equipment and facilities. Prepare detailed operational procedures and financing criteria in consultation with the target group members.	PMU and the selected service provider.	From 2013 onwards.	Distribution of solar panels suspended. Guidelines for PHGs investments, for their Revolving Funds, as well as for the specific fund to cover maintenance and operation are being drafted. Being complied
17) When private goods provided to the groups, herders' groups should decide on a proper repayment schedule and financial mechanism with loan repayments to a revolving fund managed by each herders' group.	PMU and the selected service provider.	From 2013 onwards.	Guidelines for PHGs and their Revolving Fund drafted, to be accepted by MoIA and MoF. Being complied
18) Assist each group to implement its revolving fund, including preparation of a simple manual of procedures, bookkeeping and M&E systems and an activity/financial reporting.	PMU and the selected service provider.	From 2013 onwards.	Not complied
19) Report the tentative investment proposals to the Steering Committee for endorsement and submit a request to IFAD for review and approval.	PMU	By 31st October 2012.	Complied
20) Start the implementation of the GEF funded climate change adaptation activities and included in the AWPBs of 2013 onwards.	PMU and the selected service provider.	From 2013 onwards.	Complied
21) Recruitment of a pasture management component coordinator at the PMU experienced and knowledgeable on pasture, livestock and herder organizations issues.	PMU	By 30th November 2012.	Complied
22) Undertake an assessment of the performance of the two selected NGOs for SME development and pasture management for IFAD review before extension of contracts with the service providers for the entire project implementation period, with revised terms of reference.	PMU with the service providers.	By end of March 2013.	Carried out by the Audit and Evaluation Office of the MoIA in late 2012 Complied
23) Recruit an expert to oversee the pasture management component and administrative assistant who will also work as a translator.	PMU	By end of 2012.	Complied
24) To finalise M&E plan and submit to PSC for approval	PMU with selected service providers.	By end of 2012.	Developed the draft of M&E activity plan and submitted to IFAD for review. Being complied
25) To approve baseline survey work plan and budget, complete questionnaire and execution of survey	PMU with selected service providers.	By end 2012	Survey conducted in November, 2012 by local facilitators of the selected NGOs. Report by the national consultant submitted to PMU. Complied
26) To complete database on target area from secondary sources including service providers, administrative data, UNDP poverty maps, etc.	PMU with selected service providers.	By next supervision mission	Basic information of the 30 project soums collected from various sources, selected NGOs and statistics. Poverty map from the report of Millennium Development Goals included in the Survey Report. Complied

Agreed Actions	Responsibility	Agreed Date	Actions taken
27) To train service providers and aimag/soum personnel on M&E	PMU.	By 30 March 2013	Training for conducting the household survey organized and all local facilitators of the two selected NGOs involved. In the AWPB 2013, budget for training on internal monitoring system is included. Complied
28) To explore use of GIS and remote-sensing for pasture management	PMU/MOAI	By end 2012	Automated meteorological station being provided to soums. By end August 2013 PMU shall discuss with NAMEM how GIS and remote sensing can complement this to strengthen the monitoring of pasture health. Being complied
29) To develop regular mechanisms for experience sharing and identifying lessons learnt, among participating groups and Soums, and for presenting these lessons to policy makers.	PMU with service providers.	From 2013 onwards.	Complied
30) Revise the TOR for contract extension with the two selected service providers with clear responsibilities, tasks, targets and training and guidance for the local facilitators.	PMU with selected service providers.	By end of 2012.	Complied
31) To organise, in addition to field visits, a workshop at the next supervision mission with local coordinators, local government officials and representatives of herder groups to jointly evaluate strategies, results and lessons learnt.	PMU	2013 supervision mission.	Postponed to November/December 2013
32) To further enhance women's participation in decision making and planning and access to information and promote more opportunities for women to participate in income generating activities and women's leadership in herder groups.	PMU with selected service providers.	Immediately.	Complied
33) To continue to focus the project support and investment to the poor as one of the eligibility criteria to access the Guarantee Facility and avoid elite capture of the project benefits.	PMU with selected service providers.	Immediately.	Complied
34) Segregate the duties of the cashier and accountant for effective internal control and assign different persons as a cashier and an accountant.	PMU	By end of November 2012.	PMU's M&E officer functioning as the cashier and Market Development coordinator as the Inventory clerk. Complied
35) To ratify frequent small transfers between DAs and PAs which caused difficulty in account reconciliation and the Withdrawal Application preparation.	PMU	By end of November 2012.	MoF submitted on quarterly basis for approval and sufficient funds have been transferred from the DAs to the Project Accounts (MNT) Complied
36) The financial records of transactions should be in line with the Financing Agreement. Thus, the accounting records and funds for these procurements should be adjusted between Loan and Grant Designated Accounts.	PMU	By end of November 2012.	Complied
37) Submit RIMS report of 2012 to IFAD.	PMU	By 31 st January 2013.	Complied
38) Submit annual progress report to IFAD.	PMU	By 15 th February 2013.	Complied
39) Submit appointment of auditor to IFAD.	PMU	By 30 th November 2012.	Complied

Agreed Actions	Responsibility	Agreed Date	Actions taken
40) Submit financial statement of 2012, covering all expenditures since the start of the project, to IFAD.	PMU	By 31 st March 2013.	2012 unaudited financial statements submitted to IFAD on April 22, 2013 Complied
41) Submit audit report of 2012, covering all expenditures since the start of the project, to IFAD.	PMU	By 30 th June 2013.	Not complied
42) Submit AWPB of 2013 to IFAD.	PMU	By 30 th November 2012.	Complied
43) Submit 18-month procurement plan for 1 st January 2013 to 30 th June 2014 to IFAD.	PMU	By 30 th November 2012.	Complied
44) Seek deferment of decision to centralize project procurement and finalize the procurement arrangements and responsibilities for the project with MOF and the Central Procurement Agency.	PMU/MOIA/Central Procurement Agency.	01 January 2013	Complied
45) Explore options on the construction of wells in Gobi Altai Aimag and revert to IFAD with recommendations.	PMU/Local Government	31 March 2013	MoIA Technical Working Group suggested possible options. PMU to review and send final option to IFAD for approval. Being complied
46) Establish clear procedures for local shopping and evaluation of procurement under local shopping and maintain a log to monitor performance guarantee and other bank guarantee received.	PMU	31 December 2013	Not complied
47) Ensure adequate market research is carried out demonstrating efficiency and economy to achieve value for money.	PMU	01 November 2012	Being complied
48) Custom duties paid for purchase of motorcycles and any other equipment/good or services should be refunded to IFAD.	PMU	31 December 2012	IFAD to withhold Not complied
49) Procurement of 105 tractors under the bilateral government programme at concessional prices.	PMU/MOIA	31 March 2013	Complied

Appendix 4: Physical progress measured against AWP&B, including RIMS indicators

Objectives/Expected Results	Indicators		Implementation targets						
	Project Indicators	RIMS Indicators	Appraisal (Total)	Revised (Total)	Planned (Annual)	Achieved (Cumulative)	%	Achieved (Annual)	%
Component 1: Pasture Management									
1.1. Effective pasture management organizations created and management plans formulated and approved	1.1.1. 135 Pasture Herder Groups (PHG) and pasture units supported and established and functional	135	135	115	60	60	52%	60	100%
	1.1.2. 50% of women in PHG decision making bodies	NT	50%	50%	NT				
	1.1.3. 135 pasture management plans prepared and approved	135	270	115	60	60	52%	60	100%
	1.1.4. 15 soum staff training	15	NT	15	15	15	100%	15	100%
1.2. Knowledge of herders and local government to adapt to climate change increase and improved enabling environment to reduce vulnerability of herders to the impacts of climate change	1.2.1. 80% of PHG members trained in improved pasture management practices	NT	80%	80%	30%				
	1.2.2. 135 PHG that climate change awareness raising activities completed	135	135	135	0	0	0	0	0
	1.2.3. 30 animal husbandary extension workers trained	30	60	30	0	0	0	0	0
	1.2.4. Vocational training for poor herders	30	NT	30	0	0	0	0	0
	1.2.5. 30 water well maintenance technicians trained	30	0	30	0	0	0	0	0
	1.2.6. 8 potential climate change adaptation technologies demonstrated	0	0	8	0	0	0	0	0
1.3. Investments completed in activities identified in the Pasture Management Plans that will increase the resilience of herders to climate change impacts	1.3.1. 100 Solar power facility to poor hhs	0	1350	100	30	30	30%	30	100%
	1.3.2. 115 new well drilling and exploration	115	270	115	30	0	0	0	0
	1.3.3. 115 fences spring source protection	0	0	115	30	0	0	0	0
	1.3.4. Construction of winter shelter for livestock	0	1350	0	0	0	0	0	0
	1.3.5. Fencing 300 ha of hay making area	0	2025	300ha	150ha	0	0	0	0
	1.3.6. Office equipment for 15 soum facilitators of PMD	0	15	15	15	15	100%	15	100%
	1.3.7. 30 sprinklers provision	0	0	115	30	30	26%	30	100%
	1.3.8. 20 small tractor with hay making accessories	0	0	115	20	15	13%	15	75%
	1.3.9. Motorcycles for 15 soum facilitators of PMD	0	0	15	15	15	100%	15	100%

Component 2: Market development									
2.1. Value chain development : Members of herder groups, farmer groups and rural poor in soum and aimag centers participate in value chains and earn premium incomes through direct sales of quality produce to local and national buyers.	2.1.1. 60 value chain support	0	60	60	8	0	0	0	0
	2.1.2. 5 500 Households involved in herder/farmer groups in value chain	5 500	0	NT	0	0	0	0	0
2.2. Small enterprise development: Pilot small enterprises have been established in association with private partners and producers groups and household income has improved by employment creation and value addition.	2.2.1. 500 households involved as suppliers to pilot small enterprises	500	0	500	0	0	0	0	0
	2.2.2. 5 pilot small enterprise established	5	5	5	0	0	0	0	0
	2.2.3. Producers supplying to enterprise gain access to premium markets	NT	NT	NT	0	0	0	0	0
2.3. Micro-enterprises development: Joint liability groups, use micro-finance to diversify household economic activities.	2.3.1. 600 Self Help Groups established and functioning	600	600	600	120	120	20%	120	100%
	2.3.2. Amount of savings mobilized	NT	NT	NT	NT	0	0	0	0
	2.3.3 Amount of inter-lending to members	NT	NT	NT	NT	0	0	0	0
	2.3.4. Amount of bank loans	NT	NT	NT	NT	0	0	0	0
	2.3.5. Repayment performance	NT	NT	NT	NT	0	0	0	0
	Motocycle for soum coordinator of MDC	NT	NT	NT	0	0	0	0	0
2.4. Loan Guarantee scheme	2.4. 1. Amount of loan guarantees disbursed	NT	NT	NT	NT	0	0	0	0
	2.4.2. Amount of actual risk funds called in	NT	NT	NT	NT	0	0	0	0
	2.4.3. Repayment performance final borrowers and PFIs	NT	NT	NT	NT	0	0	0	0
	2.4.4. Support and capacity building of cooperating institution	NT	NT	NT	NT	0	0	0	0
Component 3: Program Management									
	3.1.1. vehicle procured		2	2	1	1	50%	1	100%
	3.1.2. office equipment								
	3.2.1. Workshops conducted	NT	NT	NT	3	1	33%	1	50%
	3.2.2. Studies on policies	NT	NT	NT	0	0	0	0	0
	3.2.3 Study materials dissemination	NT	NT	NT	0	0	0	0	0
	3.2.4. policy workshops undertaken, policy initiatives proposed	NT	NT	NT	0	0	0	0	0

Appendix 4a: RIMS Indicators as at June 2013

FIRST LEVEL RESULTS													
	Results	Unit	End: déc-12			End: juin-13			Cumulative				
			AWP&B	Actual	% of AWPB	AWP&B	Actual	% of AWPB	Appraisal	Actual	% of Appr.		
Total Outreach	1.8.4	Communities receiving project services	15	33	220%	53	0	0%	15	0	0%		
	1.8.3	Groups receiving project services	160	170	106%	330	0	0%	615	170	28%		
	1.8.2	Households receiving project services	1.920	2.306	120%	3.597	93	3%	19.700	2.398	12%		
	1.8.1	People receiving project services	8.640	8.034	93%	9.773	8.034	82%	88.650	8.034	9%		
		Male	4.320	3.686	85%	4.887	3.686	75%	44.325	3.686	8%		
		Female	4.320	4.348	101%	4.887	4.348	89%	44.325	4.348	10%		
Component	Sub Comp												
	Value chain development	1.4.5	People in marketing groups formed/strengthened	Number	0	0	n/a	0	0	n/a	5.500	0	n/a
		1.5.4	People trained in business and entrepreneurship skills	Number	0	0	n/a	0	0	n/a	5.500	0	n/a
		1.4.4	Marketing groups formed/strengthened	Number				10	0		120	0	
		1.4.1	People trained in post-production, processing and marketing	Number				0	0	n/a	5.500	0	n/a
			Female										
			Male										
		1.4.6	Marketing groups with women in leadership position	Number				nt	0	n/a	n/t	0	n/a
	Small enterprise	1.5.5	Enterprises accessing financial services facilitated by the project	Number	0	0	n/a	0	0	n/a	5	0	n/a
		1.5.4	Enterprises accessing non-financial services facilitated by the project	Number	0	0	n/a	0	0	n/a	5	0	n/a
		1.2.5	People accessing advisory services facilitated by project	Number	0	0	n/a	0	0	n/a	5.500	0	n/a
	Micro-enterprise development	1.3.12	People trained in financial services	Number	100	121	121%	300	0	0%	5.500	121	n/a
			Female	nt	118	n/a	225	0	0%	4.125	118	3%	
			Male	nt	3	n/a	75	0	0%	1.375	3	0%	
		1.5.3	People trained in business and entrepreneurship skills	Number	100	112	112%	300	0	0%	5.500	112	n/a
			Female	nt	109	n/a	225	0	0%	4.125	109	3%	
			Male	nt	3	n/a	75	0	0%	1.375	3	0%	
		1.6.2	People trained in community management topics	Number	300	730	243%	1.200	0	0%	5.500	730	13%
			Female	255	584	229%	240	0	0%	4.125	584	14%	
			Male	45	146	324%	60	0	0%	1.375	146	11%	
		1.3.1	Saving and credit groups formed/strengthened	Number	100	110	110%	260	110	42%	550	110	20%
		1.3.2	People in saving and credit groups formed/strengthened	Number	1.000	672	67%	1.872	672	36%	5.500	672	12%
			Female	850	532	63%	1.404	532	38%	4.125	532	13%	
			Male	150	140	93%	468	140	30%	1.375	140	10%	
		1.5.1	People trained in income generating activities	Number				220	387	176%	720	387	54%
			Female					165	367	222%	540	367	68%
			Male					55	20	36%	180	20	11%
		1.3.3	Saving and credit groups with women in leadership position	Number	85	107	126%	135	0	0%	495	107	22%

Mongolia
 Project for Market and Pasture Management Development
 Supervision report - Mission dates: 20 June to 7 July 2013

FIRST LEVEL RESULTS														
	Results	Unit	End: déc-12			End: juin-13			Cumulative					
			AWP&B	Actual	% of AWPB	AWP&B	Actual	% of AWPB	Appraisal	Actual	% of Appr.			
Loan guarantee	1.3.4	Financial institutions participating in the project	Number	1	0	0%	nt	2	n/a	1	2	200%		
	1.3.5	Staff of financial institutions trained	Number	0	0	n/a	0	0	n/a	2	0	0%		
	1.3.8	Active borrowers (disaggregated by gender)	Number	n/a		n/a	n/a	0	0%	n/a	0	0%		
			Female	n/a	0	n/a	n/a	0	n/a	n/a	0	n/a		
			Male	n/a	0	n/a	n/a	0	n/a	n/a	0	n/a		
	1.3.7	Value of voluntary savings	USD	nt	8.333	n/a	nt	9.000	n/a	-	9.000	n/a		
	1.3.6	Voluntary savers	Number	n/a	352	n/a	n/a	352	n/a		352	n/a		
			Female	n/a	271	n/a	n/a	271	n/a		271	n/a		
			Male	n/a	81	n/a	n/a	81	n/a		81	n/a		
	1.3.10	Value of gross loan portfolio	USD	0	0	n/a	500.000	0	0%	n/t	0	0%		
	1.3.9	Active borrowers (enterprises)	Number	0	0	n/a	110	0	0%	5.500	0	0%		
1.3.11	Value of the gross loan portfolio (enterprises)	USD	0	0	n/a	nt	0	0%	-	0	0%			
Pasture management and climate change	1.1.10	Natural resources management groups formed/strengthened	Number	60	60	100%	60	60	100%	135	60	44%		
			1.1.11	People in natural resources management groups formed/strengthened	Number	4.200	3.877	92%	0	0	0%	18.900	3.877	21%
					Female	2.100	1.816	86%	0	0	0%	9.450	1.816	19%
	Male	2.100	2.061	98%	0	0	0%	9.450	2.061	22%				
	1.1.12	Natural resources management groups with women in leadership position	Number	12	11	92%	nt	11	n/a	-	11	n/a		
			1.5.2	People receiving vocational training	Number				30	0	0%	30	0	0%
					Female				15	0	0%	15	0	0%
	Male				15	0	0%	15	0	0%				
	1.6.2	People trained in community management topics	Number	120	128	107%	60	0	0%	n/t	128	n/a		
			Female	n/t	39	n/a	nt	0	0%	n/t	39	n/a		
			Male	n/t	89	n/a	nt	0	0%	n/t	89	n/a		
	1.1.9	People trained in natural resources management	Number	300	340	113%	387	0	0%	3.240	340	10%		
			Female	150	112	75%	194	0	0%	1.620	112	7%		
			Male	150	228	152%	194	0	0%	1.620	228	14%		
	1.5.3	People trained in business and entrepreneurship skills	Number	100	128	128%	100	0	0%	n/t	128	n/a		
			Female	50	39	78%	50	0	0%	n/t	39			
			Male	50	89	178%	50	0	0%	n/t	89			
	1.1.13	Environmental management plans formulated	Number	60	60	100%	60	0	0%	135	60	44%		
	1.1.14	Land under improved management practices	Ha	-	0	n/a	80ha	0	n/a	n/t	0	n/a		
	1.2.1	Staff of service providers trained	Number	15	15	100%	15	0	0%	15	15	100%		
Female			-	3	n/a	3	0	n/a	-	0	n/a			
Male			-	12	n/a	12	0	n/a	-	0	n/a			
1.2.1	Staff of service providers trained	Number	0	0	-	75	150	200%	165	150	91%			
		Female	0	0	-	37	0	0%	82	0	0%			
		Male	0	0	-	38	0	0%	83	0	0%			
1.1.5	Land under irrigation schemes constructed/rehabilitated	Ha	15	15	100%	30	30	100%	n/t	45	n/a			
1.1.6	Livestock water points constructed/rehabilitated	Number	30	0	0%	30	24	80%	46	24	52%			
1.1.1	People trained in infrastructure management	Number	0	0	-	60	0	0%	92	0	-			

Appendix 5: Financial: Actual financial performance by financier; by component and disbursements by category

Table 5A: Financial performance by financier

Financier	Appraisal (USD '000)	Disbursements (USD '000)	Per cent disbursed
IFAD loan	11.479	884,04	7,7%
GEF grant	1.500	197,31	13,2%
Government	899	31,25	3,5%
Beneficiaries	168		
Companies	1.663		
Institutions	2.656		
Total	18.365	1.112,60	6,1%

Table 5B: Financial performance by financier by component (USD '000)

Component	IFAD loan			GEF grant			Government			Beneficiaries, Companies & Institutions			Total		
	Appraisal	Actual	%	Appraisal	Actual	%	Appraisal	Actual	%	Appraisal	Actual	%	Appraisal	Actual	%
Market Development	5.256	344,34	6.6%				207			4.486			9.949	344,34	3.5%
Pasture Management and Climate Change Adaptation	4.956	244,50	4.9%	1.501	197,31	13.1%	602	8,95	1.5%				7.059	450,76	6.4%
Project management	1.267	295,24	23.3%				89	22,30	25.0%				1.356	317,54	23.4%
Total	11.479	884,08	7,7%	1.501	197,31	13.1%	898	31,25	3.5%	4.486			18.365	1.112,64	6.1%

Table 5C: IFAD loan disbursements (SDR, as at 30-6-2013)

Category	Category description	Original Allocation	Revised Allocation	Disbursement	W/A pending	Balance	Per cent disbursed
I	Civil Works		330.000			330.000	0.0%
II	Vehicles, equipment		620.000	107.536	8.119	504.344	18.7%
III A	Inputs - Tools, materials		570.000	55.585		514.415	9.8%
III B	Inputs - Economic Development Costs		1.190.000			1.190.000	0.0%
IV	Group Formation & Project Grants		620.000	64.059	22.191	533.750	13.9%
V A	Financing Instruments - Loan guarantees for beneficiaries in the Project area		660.000			660.000	0.0%
V B	Financing Instruments - Loan guarantees for beneficiaries outside the Project area		1.240.000			1.240.000	0.0%
V C	Credit Line		330.000		194.805	135.195	59.0%
VI	Field & Management staff, operating costs and maintenance		1.100.000	65.776	58.412	975.813	11.3%
	Unallocated		590.000			590.000	0.0%
	Initial deposit			972.044		(972.044)	
	Advance for Guarantee			596.675		(596.675)	
	Total		7.250.000	1.861.675	283.526	5.104.799	29.6%

Table 5C: GEF grant disbursements (USD, as at 30-6-2013)

Category	Category description	Original Allocation	Revised Allocation	Disbursement	W/A pending	Balance	Per cent disbursed
II	Vehicles, equipment		60.000	38.280,15		21.719,85	63.8%
III A	Inputs - Tools, materials		340.000	28.051,95	10.069	301.878,65	11.2%
III B	Inputs - Economic Development Costs		930.000	73.582.78	47.319	809.098,22	13.0%
VI	Field & Management staff, operating costs and maintenance		22.000	8.34	5	21.986.66	0.1%
	Unallocated		148.000			148.000	0.0%
	Initial deposit			250.000,00		(250.000)	
	Total		1.500.000	389.923,22	57.393	1.052.683	29.8%

Appendix 6: Compliance with legal covenants: Status of implementation

Section	Covenant	Target/ Action Due Date	Compliance Status/Date	Remarks
Section 4.02	PCU to open and maintain a Project Account to make an initial deposit equivalent to USD		Complied	
Section 4.02	GOM to replenish Project Account quarterly in advance		Being complied	WAs to be submitted more frequently
Section 4.05, section 11.10(b)	Audit report submitted to IFAD.	June 2013		Delay in submission of 2012 audit report
Schedule 4, para 7	AWPB to be submitted to the Fund, for its review and comments		Complied	
Schedule 4, para 8(a)	A Mid-Term Review (MTR) to be carried out jointly by the Borrower and IFAD.		Not yet due	Planned for August/September 2014
Schedule 4, para 16	Project to be exempted from all import duties, excise taxes and value added tax (VAT) on investment expenditures		Being complied except for small amount of import taxes	Import tax amounting to USD 1 867.65 unduly charged against IFAD loan.
Section B.6 Financing Agreement	There shall be a designated account in a bank acceptable to the Fund denominated in USD for the purpose of receiving funds in advance from the IFAD Loan.	By the end of 2011	In December 2011, designated account denominated in USD was opened with Ulaanbaatar Bank by MoF. Initial deposit of USD 1,5 million was received into this account	Complied
Section B.7 Financing Agreement	There shall be a designated account in a bank acceptable to the Fund denominated in USD for the purpose of receiving funds in advance from the GEF Grant.	By the end of 2011	In December 2011, designated account denominated in USD was opened with Ulaanbaatar Bank by Mo. Initial deposit of USD 250 thousand was received into this account.	Complied

Section	Covenant	Target/ Action Due Date	Compliance Status/Date	Remarks
Section B.8 Financing Agreement	There shall be 2 Project Accounts opened by the implementing agencies in local currency for Project operations, in commercial banks satisfactory to IFAD. One will receive resources from the GEF designated account; the other will receive resources from the IFAD designated account.	By the end of 2011	In December 2011, 2 project accounts in local currency for project operation were opened with Ulaanbaatar Bank by PMU as advised by MoF. One is for IFAD loan proceeds and one is for GEF grant proceeds	Complied
Section B.9 Financing Agreement	The Borrower/Recipient shall exempt all duties and taxes associated with the Project.	First quarter of 2012	Minister of Finance issued the order No 270 of exempting all duties and taxes of goods and materials purchased by the project. This order was issued on 26 th December 2011. Import tax amounting to USD 1 867.65 unduly charged against IFAD loan.	Being complied except for small amount of import taxes
Section E.1(a) Financing Agreement	The Project key staff such as project manager, project accountant and procurement officer shall have been duly appointed in accordance with this Agreement and shall have taken office.	By the end of 2011	D. Dalantainyam was appointed as a Project director by the order B/56 of the state secretary of MoIA on 16 th November 2011 and J. Boldhuyag was appointed as an accountant by the order 337 of the state secretary of MOF on 18 November 2011 ; Ms. Ouyntuya was appointed as a procurement officer by the order B/26 of the state secretary of MoIA on 23 March 2012. Two office have been provided by the MoIA.	Complied
Section E.1(b) Financing Agreement	The Designated accounts and the Project accounts shall have been opened	By the end of 2011	The Designated Accounts and the Project Accounts have been opened	Complied
Section E.1(c) Financing Agreement	The Project Steering Committee (PSC) shall have been established.	By the end of 2011	The PSC was established by the order of the State Secretary of MoIA in December 2011. 7 members, representing MoIA, MoF, Mongol Bank, MoED, MEGD were included into the PSC. Following up the formation of the Ministry of Industry and Agriculture, composition of PSC was renewed by the order A/06, issued by the Minister for Industry and Agriculture on 18 January 2013. 2 members were added from the MoIA	Complied
Section E.2 Financing Agreement	The establishment of a designated unit in the Ministry of Finance to manage the LGF along with a Technical Committee review the operations of the Loan Guarantee Fund. The approval of Loan Guarantee Operational Manual by IFAD.	By the end of March 2013	Loan Guarantee Technical Committee was established by the resolution of the Chairperson of the PSC on 11 th April 2013. This committee is composed of 6 members from MoF, MoIA and MoL. IFAD desk officer of MOF is a secretary of this committee. The designated unit is currently operational within the MoF and the LGF Operational Manual is to approved by both the LGF Technical Committee and the PMPMD Steering Committee (approved by IFAD).	Complied

Section	Covenant	Target/ Action Due Date	Compliance Status/Date	Remarks
Para. 6, Schedule 1 Financing Agreement	The PSC will meet at least twice per year.		In 2011, PSC have met informally twice to discuss the AWPB for 2011. In March, September and December 2012, PSC held its regular meetings in 2013.	Complied
Para. 8, Schedule 1 Financing Agreement	Annual Wok Plan and Budget. Separate AWPB will be prepared for IFAD and for GEF expenditures. AWPBs should be reviewed and approved by the PSC.	4 th quarter of 2012	Draft AWPB, procurement plan, logframe target implementation sheets were discussed by PSC in December 2012 and reviewed and concurred by IFAD in January and February and then approved by the PSC in March 2013. Duly signed copy of the AWPB and Procurement Plan were delivered to IFAD in April.	Complied
Section E.3 Financing Agreement	This Agreement is subject to ratification by the Borrower/Recipient.		The Financing Agreement was ratified by the Parliament of Mongolia on 10 July 2011.	Complied
Para. 1, Schedule 1 Financing Agreement	The project target group will include women and men from herder households and from Soum and Aimag centre households; and female headed households and households classified by the local government as poor and vulnerable in the lists at Bagh and Soum level, in the Aimags of Huvsgul, Arhangay, Bulgan, Hentii and Gobi-Altai (the "Project area").		As of May 2013, 60 Herders' pasture groups have been established in 15 project soums of 5 Aimags. 50% of members of Herders' Pasture groups is women, and 26,6 % is poor herders, living in rural areas. 110 women's groups have been established in 20 soums. 79% of members is women and more than 90% is poor one.	Being Complied
Para. 4.1.1 Schedule 1 Financing Agreement	Value chain development. The project approach in a given value chain will be to identify demand first and then link it to herders' cooperatives and producer groups, selling quality output on the basis of a medium-long term commercial agreement. Main activities will include the following: selection of value chains and/or commodities which can be produced profitably and in a sustainable manner, identification of private and/or public enterprise, herders' cooperatives and producer groups for the development of the priority value chains, establishment with project support, of a draft business plan by the selected companies including an investment plan, consultation with potential producers on the basis of the draft business and investment plan, review of the proposed production, quality and marketing modalities as well as the premium pricing mechanism, finalisation of the business and investment plans. In order to enable poor herders to benefit from and participate in value chain, the project will support the establishment of voluntary micro-finance Self Help Groups (SHGs) and develop SHGs as a cooperative. Joint liability Self Help Groups, will be eligible for group loans for micro-enterprise development. Loans will be disbursed by selected PFIs from their own resources under an agreement with the microfinance development Fund (MDF). The component will where relevant support the implementation of the Mongolian Government's "Mongol Livestock" and "Cooperative Development"		Bidding to select service provider for value chain development was announced in March 2012, but whole bid was cancelled due to the lack of experience of bidders. Instead of NGO selection, IFAD recommended to hire individual consultants for value chain development component implementation in September 2012. But this recommendation was not supported by MoIA and the Steering Committee, saying that consultants will not take any responsibility in case if their proposed activities are not successful. The IFAD's support mission worked in March 2013 and agreed with PSC to recruit full time coordinator of value chain development component. This recommendation should be implemented by the LGF Unit. So far no coordinator has been duly selected.	Not Complied

Section	Covenant	Target/ Action Due Date	Compliance Status/Date	Remarks
	programmes and its measures, undertaken to develop agricultural commodity exchange in context of their general goals			
Para. 4.1.2 Schedule 1 Financing Agreement	<p>Small enterprise development. The Project will determine the feasibility of establishing local small scale processing units at the level of two or three Soums. Investments may include e.g. vegetables processing, milk collection, powder milk production, slaughter house and meat processing, or any other such activity. Investment in economic diversification such as in services and tourism inter alia, may also be considered. Investments will be undertaken jointly by producer groups and private buying companies.</p> <p>Loan guarantees. The loan financing for the above activities will be provided by Participating Financial Institutions (PFIs) using their own resources. The project will guarantee those loans at levels varying from 50% to 80% of their value. To support its guarantees, the Project will establish a Loan Guarantee Fund. The Operation of the Loan Guarantee Fund will be overseen by a Loan Guarantee Fund Board, which will be composed of members of the already established Micro-Finance Board, but also of representatives of MOIA and the PMU. A Loan Guarantee Operational Manual will be prepared by the project and approved by IFAD prior to disbursements under this component. Changes to the Loan Guarantee Operational Manual will only be made with IFAD's prior approval.</p>		<p>Planned to be implemented starting in 3rd year of the project.</p> <p>LGF has been established under the project. Manager and finance officer have been recruited by MoF. As the financing agreement was amended, USD 2,9 million will be disbursed as a loan guarantee. Out of which, USD 1,9 million will be disbursed for non-project aimags and soums and USD 1 million will be for project target aimags. LGF has developed a draft loan guarantee manual and a loan guarantee contract with commercial banks to be approved by IFAD. Due to the fact that no financing source is found by MoF until the end of 2012, IFAD has decided to re-allocate USD 0.5 million from the category of loan guarantee of USD 3.4 million for the purpose of disbursing as a loan for 110 women's group. Subsidiary Loan Agreements are going to be concluded with Khaan, Savings and Capital Banks to on-lend the above source to project-supported 110 women's groups.</p>	<p>Not Complied</p> <p>Partly complied</p>
Para. 4.2.1 Schedule 1 Financing Agreement	<p>Pasture management. The focus of the project would be on building sustainable community organizations that promote sustainable pasture use and equity through inclusive approaches and socially responsible practices. The project will support the participatory definition of geographic Pasture Units and their approval by the Soum administration, and the establishment, registration and training of about 135 Pasture Herder Groups(PHG). Existing PHGs, established under the previous projects will be prioritized for cooperation and support under this component. A three-year Pasture Management Plan and annual activity plans will be drawn up by each PHG in a participatory manner</p>		<p>60 herders' pasture groups have been established in 2012. Field activities of this component started to be implemented in the beginning of the second half of 2012 due to slow selection process of NGO through bidding. Activities of 2012 concentrated on forming and strengthening the groups. All the planned investment biddings were organized. The most important investment of building new engineering wells was not made for the reason that no eligible materials were submitted by 7 companies, participated in the bidding. Therefore, as recommended by IFAD the bidding was cancelled and decided to be organized in 2013.</p>	<p>Being Complied</p>

Section	Covenant	Target/ Action Due Date	Compliance Status/Date	Remarks
			<p>In 2013, as recommended by the MOIA in consideration of para 5/1 provision 1.23 of the Public Procurement Law of Mongolia, "which says that /"General Contract" shall mean "a contract with agreed terms and conditions made with one or two suppliers, service providers or contractors on provision of regular use goods, works and services with the duration of up to three years."/ the bidding to select the NGO has been organized again. As proposed by IFAD in order to not stop the project activities, the contract with the current NGO has been extended until 1 August 2013 and beyond if delays are envisaged in the selection of the NGO</p> <p>As planned 8 national competitive biddings have already been announced. Contract with companies have been concluded to drill new wells in project covered remote pasture areas.</p>	
<p>Para. 4.2.2 Schedule 1 Financing Agreement</p>	<p>Climate change adaptation. This sub-component will be co-funded by the GEF Grant and will provide the resources for implementation of the pasture management plans of PHGs and of specific measures to increase the capacity and resilience of herders to cope with climate change impacts and manage pastoral risks. Specific investments identified in the pasture management plans will include collective activities such as: construction of new shallow wells for livestock watering (to extend access to grazing areas), fencing of hayfields for winter pasture conservation and fodder preparation, construction of winter shelters for livestock, and fencing of wetlands and water sources to protect from degradation by overgrazing and trampling. The project will support measures to increase the capacity of PHG communities to adapt to climate change and manage pastoral risk. Implementation of the whole component will be contracted out to an experienced and qualified NGO or consortium of NGOs.</p>	<p>Activities would only start in 2013</p>	<p>As recommended by MOIA and representatives of local communities, participated in the start-up workshop, it was agreed by IFAD to build deep engineering wells instead of shallow wells.</p> <p>As recommended by MOIA and agreed by IFAD, hay and fodder storages have been built in pasture reserve areas of the project soums instead of constructing winter shelters for livestock.</p> <p>Fencing of hay-making areas and natural spring sources and constructing natural rain and snow water harvesting points are going to be constructed. Selection of areas was done as suggested by project groups.</p> <p>Trainings for herders in breeding and vet services, well maintenance, insurance, vocational training and training for meteorological officers of soums were planned to be organized in 2013. Training on well maintenance has been contracted with companies won the bidding of new wells. Training on breeding and vet services and vocational training are going to be organized in June. Others will be conducted in the second half of the year by contracting with specialized institutions.</p>	<p>Being Complied</p>

Section	Covenant	Target/ Action Due Date	Compliance Status/Date	Remarks
Para. 4.3 Schedule 1 Financing Agreement	Project management and policy support. The project will be implemented under the responsibility of the Ministry of Industry and Agriculture (MOIA). A Steering Committee, chaired by the Ministry of Finance will be established. A Project Management Unit (PMU) will be established, reporting to the State Secretary of MOIA. It will be staffed by a Project Manager, an Economist, a Socio-economic and gender specialist, an Accountant, a Monitoring and Evaluation officer, a Secretary and a Driver. The PMU will outsource the implementation to experienced and qualified service providers. Its main responsibilities thus will be in planning, supervision, financial management and monitoring. At the beginning of the project, consultant support will be mobilised to establish an appropriate Monitoring & Evaluation system	By the end of 2011	MoIA is the implementing agency of the project. The PSC has been chaired by the MoF. Except coordinator for value chain development, all staff was recruited. PMU was established by the order of the State Secretary of MoFALI in November 2011. M&E system has been established. Pasture component and women' group formation, loan and loan guarantee services' sub component have been implemented by NGOs, selected through the bidding. Value chain component will not be implemented by NGO, it will be implemented by PMU by recruiting full time coordinator and financial expert	Being Complied
Para. 6 Schedule 1 Financing Agreement	Project Steering Committee. The overall authority of the project will be vested in the Project Steering Committee (PSC). The Chair of the Committee will be held by a representative of the Ministry of Finance, members will include representatives of the MOIA, the Ministry of Economic Development, the Bank of Mongolia, and the Ministry of Environment and Green Development and representatives of NGOs (the latter as observer). The Project Manager will act as the Secretary of the PSC. The PSC will meet at least twice per year. The Steering Committee will review and approve the project's AWPB. It will review and approve the Annual report and the annual Financial Statements before auditing. It will review and approve the Implementation Agreements with the respective service providers prior to obtaining no-objections from IFAD, and will review and approve Value Chain business plans and investment plans as well as the small enterprise investment plans. It will provide policy advice on request of the Project Manager, any time a policy issue comes up during implementation. The PSC will not be involved in day-to-day executive matters		The Chair of the Committee has been held by a representative of the Ministry of Finance, members are representatives of the MoIA, the MoED, the Bank of Mongolia, and the Ministry of Environment and Green Development. The Project Manager is the Secretary of the PSC. The PSC has held the meeting 6 times since 2012. The Steering Committee have discussed and approved the project's AWPB and procurement plan, M&E plan and reports annually.	Being Complied

Appendix 7: Knowledge management: Learning and Innovation

Learning

Aside from a baseline assessment shared with partners, no other explicit knowledge management product has yet been produced by the project. The project plans to hold stakeholder learning events for experience sharing and identifying lessons learnt, among participating groups and *soums*, and for presenting these lessons to policy makers. Some lessons and emerging areas for learning are described below:

Cooperatives and their constraints. In compliance with the government policy, the project will promote the transformation of groups formed under the project into cooperatives. However, financial constraints for poor households and taxation of such legal entities are hindering factors that might limit the development of such cooperatives. The Government could envisage the implementation of a temporary tax exemption for new cooperatives that would be tested under the project.

Partnership with governmental and/or donor development funds. Considering the high interest rate charged by commercial banks when lending from their own resources, the Loan Guarantee Fund (LGF) will extend guarantees to commercial banks when using governmental development fund (e.g. Employment Generation Fund, SMEs Development Fund) and/or donor development fund (e.g. JICA Two-Step loan) to on-lend at a concessional interest rate. This partnership has not yet been effective. Meetings with senior representatives of both SMEs Development Fund and Employment Generation Fund have highlighted a lack of understanding of the project's objectives and implementation mechanisms leading to an absence of coordination between these funds and the project. The partnership has also not been effective with regards to the provision of training to potential beneficiaries. Access to resources from these funds are subject to legal and financial requirements. In the case of both the EGF and the SME Dev. Fund, the notion of 1 job created for each MNT 1 million lent is predominant in the approval process. Women's groups with an average of 6 members and a loan request of MNT 8 million exceed this ratio. The mission recommends the PMU to advocate an amendment to SME Dev. Funds' internal policy to enable PMPMD groups to be financed with funds' resources. Tax registration and payment of social taxes constitute also a requirement from the SMEs Dev. Fund. Groups promoted under the project are no legal entities. However, it was agreed that training certificates issued by the NGO, identification of groups at *soum* level and certificate of membership issued by NGO to each group member would be sufficient to substitute the tax registration.

Women's Roles. In group facilitation and trainings, the project is continuing its efforts to include women and encourage their active participation and build their capacity. Women have played key roles in strengthening of pasture herder groups elsewhere, driving their social organization and coherence, and have taken leading roles in economic activities. With the promotion of cooperatives, the project and selected NGOs aim to adapt their technical assistance and capacity building training to ensure that women will be able to fulfill leading roles in cooperatives, thus enabling women's economic empowerment.

Value chain. The value chain subcomponent also has good potential to generate useful lessons once more partnerships are mobilized. The first step has been sharing the baseline survey findings and insights with MoF, MoIA and relevant donor-funded projects last April, where there were some discussions on coordination as well as adopting RIMS survey approach. This will be followed up with future events reviewing progress and performance, to be held in the project area and attended also by representatives of local stakeholders and the target group.

Innovation: Describe any interesting innovation noted during supervision

In implementing an innovative approach, PMPMD has addressed challenges in engaging partners in rural finance and in pasture management, generating lessons that is relevant at a national level.

Loan Guarantee Fund (LGF). The project through the LGF can also substantially contribute to the strengthening and improvement of the Law on Guarantee Funds. As the loan guarantee scheme evolves, it offers applied lessons on what is practically feasible under Mongolia's Law on Guarantee Fund passed on 10th February 2012. Poverty focus will be one of the eligibility criteria to access the success of the Guarantee Facility.

The LGF Unit will disseminate lessons learnt and best practices with all stakeholders. In that respect, short-term training provided to risk and credit managers of commercial banks and non-bank financial institutions on Guarantee Facilities is advisable, considering the innovative financial instrument for Mongolia.

Pasture Management. The plan to develop a separate law on pasture land has been abandoned by the new government and instead a procedure to regulate pasture land use under the current land law is being developed. The procedure is likely to provide use and possession rights over pasture land, not ownership, to herders, legal entities and groups of herder households. The new procedure defines the rights and responsibilities of resource users and local government, and training in management and monitoring are very important elements to which the project can contribute.

Once this new procedure is effective (and with PHG responsibilities clearly defined), the implementation of pasture land plans, by groups of households within the soum pasture land planning, will benefit from a stronger legal basis. The project can make a contribution to learning on the most effective means for applying and benefitting the new procedure. So far the project has taken an important initial step of drafting guidelines for the distribution, operations and maintenance of the equipment and facilities provided by the project to the PHGs, the selection of recipients, and the development of PHGs members' capacities to manage these equipment and facilities with project support. Project investments are therefore providing important support towards building financial capacity of groups and preparing them for further economic activities in the future.
