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Report No: 73827-MN

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED GRANT

IN THE AMOUNT OF
US\$ 11 MILLION

TO

MONGOLIA

FOR A

LIVESTOCK AND AGRICULTURAL MARKETING PROJECT (LAMP)

May 17, 2013

China and Mongolia Sustainable Development Unit
Sustainable Development Department
East Asia and Pacific Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective November 15, 2012)

Currency Unit = Mongolian National Tugrug (MNT)
MNT1392 = US\$1
US\$1.525 = SDR 1

FISCAL YEAR
July 1 June 30

ABBREVIATIONS AND ACRONYMS

ACC	Aimag Coordinating Committee
ACO	Aimag Coordinating Office
ADB	Asian Development Bank
ADNET	Aimag Department for Nature, Environment and Tourism
ADRA	Adventists Development and Relief Agency
AHRI	Animal Husbandry Research Institute
AI	Artificial Insemination
APC	Aimag Project Coordinator
APO	Aimag Project Office
ARCS	Audit Report Compliance System
ASIA	Aimag Special Inspection Agency
AVSF	Agronomes Veterinaire Sans Frontier
BDS	Business Development Service
BIP	Border Inspection Post
CAS	Country Assistance Strategy
CPP	Community Participation Procurement
CPA	Central Procurement Agency
CPS	Country Partnership Strategy
CVO	

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MONGOLIA
Livestock and Agricultural Marketing Project

Table of Contents

I.	STRATEGIC CONTEXT	12
	A. Country Context.....	12
	B. Sectoral and Institutional Context.....	12
II.	PROJECT DEVELOPMENT OBJECTIVES	16
III.	PROJECT DESCRIPTION	17
	A. Project Components	17
	B. Project Financing	21
	(i) Lending Instrument.....	21
	(ii) Tables on Project Cost and Financing	22
	C. Lessons Learned and Reflected in the Project Design.....	22
IV.	IMPLEMENTATION	23
	A. Institutional and Implementation Arrangements	23
	B. Results Monitoring and Evaluation	23
	C. Sustainability.....	24
V.	KEY RISKS AND MITIGATION MEASURES	25
VI.	APPRAISAL SUMMARY	26
	A. Economic and Financial Analyses	26
	B. Technical.....	27
	C. Financial Management.....	27
	D. Procurement	27
	E. Social (including Safeguards).....	28
	F. Environment (including Safeguards)	29
	Annex 1: Results Framework and Monitoring	31
	Annex 2: Detailed Project Description.....	35
	Annex 3: Implementation Arrangements	44
	Annex 4: Operational Risk Assessment Framework (ORAF).....	61

Annex 5: Implementation Support Plan66

Annex 6: Economic and Financial Analysis69

PAD DATA SHEET

Mongolia

Mongolia Livestock and Agricultural Marketing Project (P125964)

PROJECT APPRAISAL DOCUMENT

I. STRATEGIC CONTEXT

A. COUNTRY CONTEXT

1. Mongolia is a vast country with an area of 1,569,000 k . The population is just over 2.7 million, making it the third most sparsely populated country in the world. The country has a continental climate characterized by long and extremely cold winters. Temperatures range from as low as minus 45°C on the steppe in winter to plus 45°C in the Gobi desert in summer.

2. The country began simultaneous economic and political transformations in 1990, after the collapse of the Soviet Union. The rapid liberalization and privatization of the economy resulted in serious social differentiation and impoverishment. The transformation from collective socialism to the market economy during the following decade resulted in the collapse of agriculture and the food industry, causing considerable disruption to both urban and rural livelihoods. Mongolia has experienced rural migration into urban centers over the past twenty years. As a result, urban poverty and food insecurity increased. The proportion of people living under the poverty line in 1995 was 36.3 percent and then dropped to 29.8 percent in 2011, with rural poverty estimated at 33 percent.

3. The global economic crisis of 2008 struck the Mongolian economy, seriously affecting key mineral exports as well as the agriculture and livestock sector. All economic indexes collapsed, and its fiscal accounts, the balance of payments, and tax revenue all suffered deterioration. This performance inevitably undermined government investment in agriculture. After negative performance (minus 1.3 percent) in 2009, the economy has strongly rebounded

9. To address poverty in the herding sector and protect and recover the pasture resource that sustains the rural economy, the Government will have to introduce policies that reduce or at least do not further increase the animal numbers, promote greater off-take of animals through the expansion of export markets, and pay more attention to quality-based pricing and animal productivity. In May 2010, the Government approved the National Livestock Program (NLP), which aims to develop a modern, competitive and sustainable livestock industry. The NLP priority areas are: i) the formulation of a favorable legal, economic and institutional environment for sustainable development and good governance; (ii) improving animal breeding services and increasing the productivity and production of competitive, high quality, -biologically-clean products and raw materials; (iii) raising the veterinary service standard to international levels and protecting public health; (iv) developing livestock production that is adaptable to climatic, environmental, and ecological changes with strengthened risk management capacity; and (v) developing targeted markets, establishing processing and marketing structures and accelerating economic turnover through an incentive system. The Government allocates no less than 3 percent of the national budget to the NLP.

10. In preparing the Global Agriculture and Food Security Program (GAFSP) proposal, the Ministry of Industry and Agriculture (MoIA) consulted with stakeholders (including donors and NGOs) and identified five key areas to be addressed. These priority issues are in line with the National Food Security Program (NFSP) and the NLP framework, and include: (i) under-

developed agro-industries and value chains that remain stagnant and have not improved herder their livelihood-bases other than herding animals; (iii) undermined veterinarian services which lead to slow responses to infectious animal diseases and constrain effective veterinary service

COMPONENT 1 LINKING HERDERS TO MARKETS (*US\$ 6.00 million grant*)

27. The objective of this component is to create productive partnerships by linking producers of livestock products (meat, fiber, milk and horticultural products) to markets and diversifying sources of income and household nutrition. The component will also support traceability of products for participating herder cooperatives. The objective will be achieved through three specific sub-components as follows:

Sub-Component 1a: Meat and Fiber Market Development (*US\$4.00 million*)

28. The objective of this sub-

marketing, financial management and cooperative management. All applications will require

Sub-component 2b: Animal Breeding and Genetic Improvement (US\$ 1.5 million grant)

35. This sub-component will improve animal breeding and genetics. The breeding program will aim at improving economic traits demanded by end-users within the 5 selected *aimags*

will learn from the experience of other projects piloting land use rights for fodder production and complement the activity.

40.

and informal) who are engaged in animal activities. Additionally, needs assessments and training programs will identify any special requirements for training or technical support needed by women in relation to livestock nutrition, feed preparation and feeding programs. Beneficiaries are expected to contribute 10 percent of total investment for all matching grants applications and an additional 2 percent by the soum government, while women headed households will contribute 5 percent of the total value of investment. In an effort to ensure transparency and fairness in the process, all matching grants will be administered through matching grants committees at the soum level, and national level with membership and functions described in the accompanying Matching Grants Manual (MGM). A Matching Grants Officer with qualifications and experience acceptable to the Bank will be selected through a competitive process at the national level to assist the Project Coordinator in managing the grants. The selected candidate will have day to day responsibility to ensure the effective delivery of the matching grants as stipulated in the MGM.

Component 3: Project Management (US\$1.0 million grant)

41. This component will support the coordination of project activities and the fiduciary functions of the Project Implementation Unit (PIU) to be established by the MoIA. The PIU will be staffed and equipped to enable it to effectively carry out these activities. The sub component will finance incremental staff, consultants, operating costs, technical assistance, training, M&E activities and impact assessments, information dissemination and annual audits.

42. The project will also support the coordination of donor funded programs in the livestock sector, by holding semi-annual meetings to review implementation progress and provide policy guidance to MoIA. In the process of the reviews, the project will ensure that the objectives and implementation arrangements are aligned with the Soum Program being prepared by the Ministry of Economic Development. The program seeks to link herders to markets by providing them with support services through centers of excellence yet to be established.

43. The Project will engage the services of a service provider or an NGO with considerable experience in value chain development to support herder/groups in developing productive partnerships with marketers. The terms and conditions and contractual obligations for the selected service providers and NGO are described in the Matching Grants Manual.

B. PROJECT FINANCING

(i) Lending Instrument

44. The proposed project will be financed by a specific investment grant with International Development Association acting as trustee and Supervising Entity of the Global Agriculture and Food Security Program. The grant is in an amount of \$11 million to assist in financing the Project for a period of 4 years.

with the SC in each *Soum*. Training will be provided for the specific tasks to be fulfilled. Other staff of the PIU and MOIA and will be trained in the project M&E program.

54. Implementation progress and performance will be assessed based on the indicators identified in Annex 1 and supplemented by detailed Project Management Reports and Financial Management Reports in a format agreed upon with IDA. Baseline studies, surveys and impact

while using sub-contracting to informal groups for the delivery of services, especially in the area of extension. Ownership of nucleus herds will be by herder groups and/or cooperatives while male breeding flocks will be owned and managed by breeding cooperatives affiliated with private veterinarians.

Financial sustainability: The project interventions do not impose recurring costs except for the nucleus herds, where a long-term GOM commitment to the sampling and genetic evaluation program and some recurring operating costs is required. A small per kg sales fee (check-off) on processed fiber would provide long-term financial stability to this program.

Technical sustainability: The technical systems proposed have been identified through a review of best practice and lessons learned. Technologies will be relatively simple and not require post-project technical back-stopping. Technology dissemination at the ground level will include farmer-led mechanisms (herder groups, lead farmers, associations) to build sustainability.

Social and environmental sustainability: Socially, the project will target marginal and poor herders and *soum* residents, thus avoiding elite capture and maintaining broad grassroots support. Soil and water conservation programs and perennial forage management will enhance environmental sustainability. The genetic improvement program will preserve the best indigenous Mongolian breeds which are now at risk.

V. KEY RISKS AND MITIGATION MEASURES

A. RISK RATINGS SUMMARY TABLE

Stakeholder Risk	Moderate
Implementing Agency Risk	
- Capacity	Moderate
- Governance	Moderate
Project Risk	
- Design	Moderate
- Social and Environmental	Moderate
- Program and Donor	Low
- Delivery Monitoring and Sustainability	Substantial
Overall Implementation Risk	Moderate

B. RISK RATING EXPLANATION

59. The overall risk rating of the project is set as Moderate.

Low Capacity for implementation: This is the first World Bank project to be managed by the

B. TECHNICAL

62. Overall, the project is considered technically sound given that it addresses the constraints to small herders' competitiveness in a balanced way, with Component 1 supporting small herders' private business initiatives, and Component 2 focusing on public functions to improve the support services framework. Under Component 1 the project will provide a combination of technical and financial support to demand-driven subprojects. Direct beneficiaries will be formally established herders' organizations, consistent with the fact that aggregation of production and production costs is essential to improve small herders' access to more profitable markets. When it comes to accessing markets and strengthening small herders' organizational and managerial capacities, key technical assistance will be provided under the project.

63. The project will call upon the engagement of private providers (design and implementation of business proposals, online agri-business information center) and on collaborations with business associations and professional unions (e.g. through the annual multi-stakeholders meeting, and the *Aimag/Soum* councils) for advice and support in design and monitoring. The project also adopts a flexible approach to support important target groups, such as women. Finally, it emphasizes environmental sustainability through the mainstreaming of improved agricultural practices in sub-projects.

C. FINANCIAL MANAGEMENT

64. The responsibility for managing Bank grant proceeds, including the management of the Designated Account (DA), will be jointly taken by the Ministry of Finance (MOF) and the Ministry of Industry and Agriculture (MoIA). A financial management capacity assessment of the MoIA

management capacity have been agreed with the implementing agency, MoIA. The FM assessment has concluded that with the implementation of these proposed actions, the financial

Annex 3 provides additional information on Financial Management. The draft Financial Management Manual has been updated at negotiations and will be finalized within three months after project effectiveness as an integral part of the project implementation manual.

66. The key procurement risk is that since this is the first Bank investment operation with MoIA consultants selection policies and procedures. As a result there is the possibility of delays in processing procurement and non-compliance with Bank Procurement/Consultant Guidelines. The procurement risk is complicated by the current uncertainty regarding the role of the newly created Central Procurement Agency (CPA) under the Office of the Deputy Prime Minister in processing procurement in projects in Mongolia financed by international financial institutions

70. **Public Consultation and Disclosure.** In accordance with Bank Safeguard policies, public consultations were conducted, with local farmers and other stakeholders such as officials of project soum administration and ASIA and ADNET officials/staff, inspectors and local farmers on April 25-29 and on May 5-7, 2012. Their opinions and concerns have been taken into account in the EA safeguards documents. The EMP including the PMP was disclosed locally on September 17, 2012 at the local governmental website and province libraries. The final EA document was disclosed at the Bank Info Shop on October 31, 2012.

71. **Gender.** Mainstreaming gender to ensure equity and empowerment will be a core aspect of project implementation. To advance this, a gender strategy for the project that takes into account all component activities will be developed. The strategy will have an action plan that will translate it into concrete actions based on component activities and guided by the results framework which has a number of indicators with expected gender outcomes. The action plan will be costed and included in annual work plans and budgets. In addition, all studies and follow up analysis, activities (based on the action plan) and monitoring and evaluation will be guided by gender considerations that will ensure the incorporation of the interests and needs of men and women in planning, implementation and monitoring of project activities. The focus on activity and income diversification of the project is expected to have positive impact on women and contribute to gender equity and empowerment for the benefit of the social structure

F. ENVIRONMENT (INCLUDING SAFEGUARDS)

undertaken by all partners and stakeholders of LAMP. The PMP also specifies the institutional arrangement, monitoring requirements, and the budget for the PMP implementation.

75. **Public Consultation and Disclosure** In accordance with Bank Safeguard policies, public consultations were conducted, with local farmers and other stakeholders such as officials of project soum administration and ASIA and ADNET officials/staff, inspectors and local farmers on April 25-29 and on May 5-7, 2012. Their opinions and concerns have been taken into account in the EA safeguards documents. The EMP including the PMP was disclosed locally on September 17, 2012 at the local governmental website and province libraries. The final EA document was disclosed at the Bank InfoShop on October 31, 2012.

Safeguard Policies Triggered by the Project	Yes	No
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ANNEX 1: RESULTS FRAMEWORK AND MONITORING

Mongolia: Livestock and Agricultural Marketing Project

	Indicator Name	Core	Unit of Measure	Baseline	YR1	YR2	YR3	YR4	Frequency	Data Source/ Methodology	Responsibility for data Collection
PDO Level 1 Results Indicators											
1	(GAFSP)Number of intended and actual direct beneficiaries, gender disaggregated		Number	0	1000	5000	8110	8110	annually	PIU records	PIU
2	(GAFSP) Increase in household income from livestock and in selected cases horticultural products.		Text	0	2%	10%	15%	20%	baseline, mid-term and upon completion		

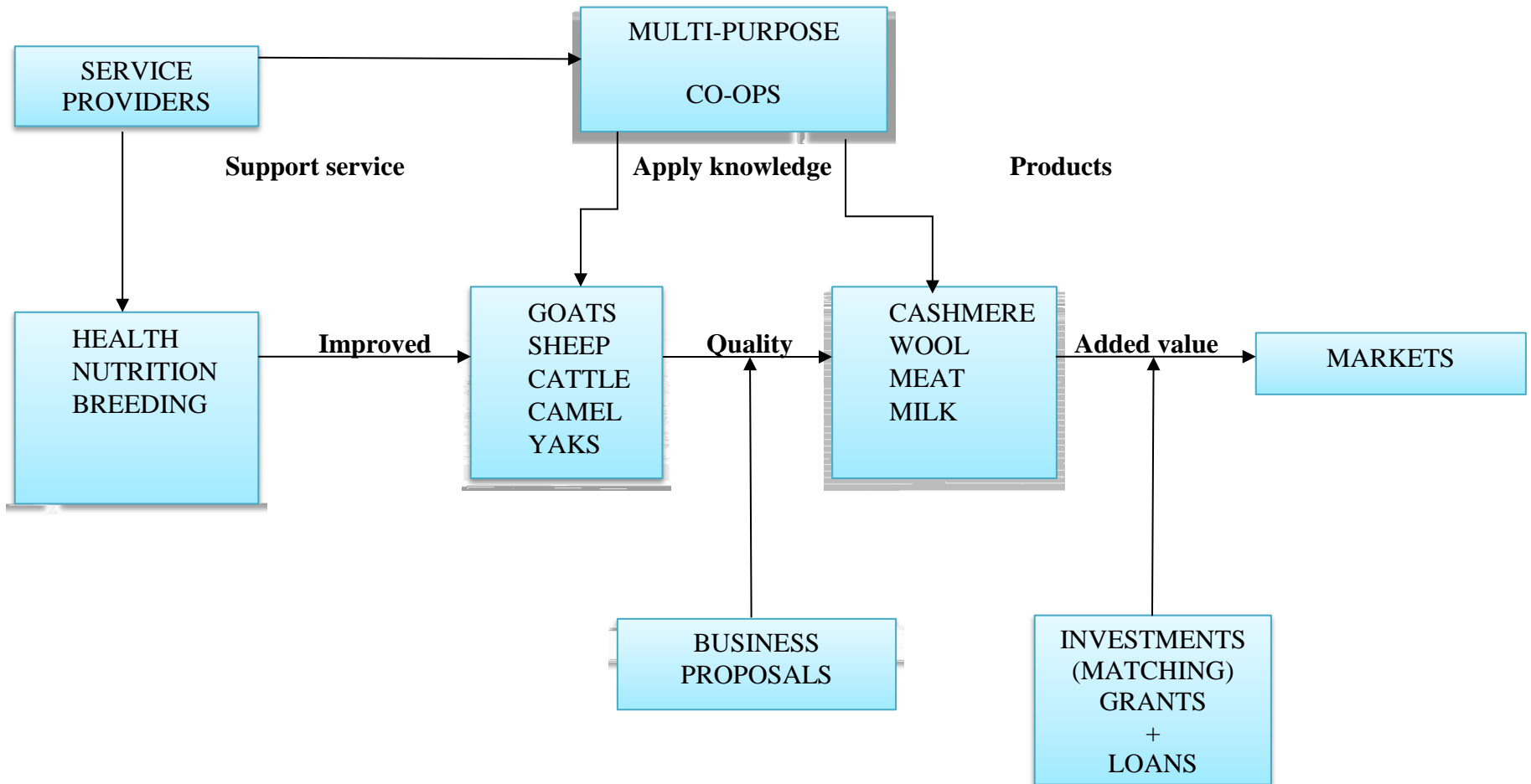
18	Number of participants in M&E workshops, training events, seminars, conferences etc (disaggregated by gender and affiliation)	<input type="checkbox"/>	Number	0	150	300	300	600	annually	project record	PIU
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ANNEX 2: DETAILED PROJECT DESCRIPTION

MONGOLIA: Livestock and Agricultural Marketing Project

Project Development Objective

Schematic Representation of Project Design



Component 1 Linking Herders to Markets (US\$ 6.00 million grant)

10.

15. Various sizes of dairy processing investments have been identified. These range from a micro-unit processing 100 liters per day (lpd), that would serve five households producing 20 liters each. This unit provides for basic collection in milk cans, straining, pasteurizing, cream separation, butter churning and refrigeration. The second scale would process 400 lpd from 10 households. A 500 liters cooling tank, cooling room and the purchase of a truck is added to the

to actual gender and/or age-based division of labor and technical needs in various aspects of animal production with women performing most young animal care and milking.

Subcomponent 2a: Animal Health (US\$ 1.5 million grant)

20. This subcomponent will support the development of export markets through strategic planning for export development, bilateral negotiations and the strengthening of disease free zones, veterinary services and individual veterinary and para-veterinary capacity. This will be accomplished through : (i) supporting and implementing national level programs for FMD and brucellosis control in all soums o

25. **Beef breed improvement:** Herders will be supplied with improved beef bulls. These will be obtained through the Dairy Herd Improvement Program (DHIP), which uses the Simmental breed, a classical dual purpose breed for meat and milk. It is suggested to use surplus bulls from the DHIP for natural mating in the traditional environment. Beef breed improvement will target improved carcass size and growth rates, economic traits for which packers are beginning to offer price differentiation. This will be done in partnership with the private sector.

26. These programs will be designed to improve economic traits demanded by end-users while remaining sustainable within the Mongolia climatic and management environment. The genetic improvement program will support the preservation of indigenous Mongolian breeds. The subcomponent will increase the quality of livestock products and animal productivity thereby contributing to improved household incomes and the proportion of total income earned from agriculture.

27.

producers feeding weaned beef calves over their first winter to maintain body condition; and pasturing them over the second summer, and selling them the following fall at 15 – 18 months of age. Other possibilities include feeding one or two year old animals through the winter in order

31. Establishment of silvo-pastoralism plots will be encouraged. These plots, on 15 hectares of land, make maximum use of the land and water resources. Arable land is subdivided between

ANNEX 3: IMPLEMENTATION ARRANGEMENTS

MONGOLIA: Livestock and Agricultural Marketing Project

Project Institutional and Implementation Arrangements

independent audit of project resources and activities; (v) carrying out significant communication activities across the country to create awareness of project objectives and outcomes; (vi) conducting technical training of project beneficiaries; (vii) hiring of technical consultants for the execution of specific project activities

6. **Soum level:** The MoIA coordinator (head of MOIA at the Soum) will assume responsibility as Soum Coordinator (SC) for the coordination, monitoring and reporting on soum activities. The SC will work under the overall guidance of the Soum Steering Committee (SSC) chaired by the Soum Governor. Other members will include the soum breeder and veterinarian, the social welfare officer, the service provider, a member of the soum khural, a herder, and an aimag Governor representative. *Soum* government will be involved in beneficiary selection and land provision, coordination of activities and allocation of local resources. The newly established VABUs will be involved in various project aspects. The project provides an important capacity building opportunity for these units. Private businesses, producer groups and veterinarians will all be involved at the soum level. Where NGOs have an active presence in the soum, coordination will be important and service delivery may be contracted. With the passage of the Integrated Budget Law in 2012, *soum* governments will assume more fiscal resources and responsibilities and are expected to contribute 2 percent to the capital investments under the matching grants. The project will work with the various *soum* governments to strengthen strategic planning and donor coordination, as it relates to the successful implementation of this project.

7. *Producer groups and commodity associations:* These groups will play a central role in the PPs and in the local productivity enhancement and diversification investments. National associations such as the Dairy Breeder Association will play a role in liaising with producers for the AI and beef enhancement programs. Other associations, such as the National Cashmere Association, the Forage Growers Association and the Seabuckthorn Association may be involved in the liaison and the delivery of training.

8. **Partnerships:** The FAO with financing through the GAFSP is implementing a complementary project that will provide supplemental technical assistance and support related activities that will contribute to the same PDO. These complementary activities will be initiated in early 2012 and run through the life of the project. The FAO project is expected to prepare the project implementation manual as well as manuals and guidelines to guide the investment proposal contained in this PAD (see attached Table for a summary of activities by FAO).

9. The FAO managed project also includes a detailed monitoring plan as well as the preparation of the Monitoring and Evaluation system. In this regard, additional support will be provided by the Development Impact and Evaluation initiative (DIME) which will help to organize and finance the baseline study and to design and implement impact evaluation. The project would work with the Monitoring Department of the MoIA in this regard. The impact evaluation could involve a study of the causal effect of the LAMP as a whole on the PDO Level Results indicators as well as the impacts of various component-specific interventions. The latter would be done in close cooperation with MoIA officials and other partners and

would be done for the sake of identifying ways in which the different components could be improved on a continual basis, as the project progresses.

Guidelines to be produced under the FAO-TA
(source: FAO project document)

1. Enhanced organizational and human capacities in conducting animal health improvement and surveillance activities.	Strategy for meat export Strategy for FMD and Brucellosis free zone
2.1 Preparation of value-chains development	

Financial Management, Disbursements and Procurement

Financial Management

10. Overall, the residual financial management risk for the project after mitigating measure is assessed as Substantial. Although, MoIA has implemented some projects with funding from different donors, including the Asian Development Bank, IFAD, and UNDP, it is new to Bank operations. To address the lack of knowledge in managing Bank-financed projects, the Bank will provide related guidelines and financial management/disbursement training to project financial staff. In addition, the Financial Management Manual (FMM) which is part of the Project Implementation Manual (referred to in the Grant Agreement) will provide guidance on the management of the project finances. A Designated Account (DA) will be set up with a commercial Bank acceptable to the World Bank and be jointly managed by MOF and MoIA

11. Funding sources for the project include the Bank grant and counterpart funds. The Bank grant will be signed between the Bank and the Government of Mongolia. The Bank grant proceeds will flow from the Bank into the project DA to be jointly managed by MOF and MoIA and then be disbursed to

Auditing, under terms of reference satisfactory to the Bank. The audit will be financed from the project proceeds. The auditor will: (a) express an opinion on the annual financial statements; (b) determine whether the DA has been correctly accounted for and used in accordance with the financing and trust fund agreements; and (c) determine the adequacy of supporting documents and controls surrounding the use of Statements of Expenditure (SOEs) as a basis for disbursement. The auditors will also furnish a separate Management Letter, which will: (a) identify significant weaknesses in accounting and internal control as well as asset management; (b) report on the degree of compliance of financial covenants of the financing agreement and project agreement; and (c) communicate other matters that have come to the attention of the auditors which might have a significant impact on the implementation of the Project.

14. The annual audit report of project financial statements will be due to the Bank within six months after the end of each calendar year. This requirement is stipulated in the Grant Agreement. The responsible agency and timing are summarized as follows:

Audit Reports	Submitted by	Date Due
Project Financial Statements	MoIA	June 30 of each calendar year

15. **Risk Assessment and Mitigation:** The following risks with corresponding mitigating measures have been identified. ~~EEU/Đáp Á/gFDPI/RI~~

Risk

**Risk
Rating**

Risk Mitigating Measures

costs		
(2) Sub-Grants	3,520,000	100 %

29.

The Bank does not mandate a format for annual financial statements. However, if a Borrower prepares financial statements on a modified cash basis, the Bank encourages the adoption of formats laid out in the International Public Sector Accounting Standards (IPSAS) and Financial Reporting under the Modified Cash Basis of Accounting, in order to monitor and fully reflect any non-cash transactions and payables. The PIU will adopt the cash basis of accounting for preparing financial statements. Consistent with IPSAS requirements, the financial statements will include the following:

Balance Sheet of the Project;
Statement of Sources and Uses of Funds by Project Components;
Statement of Implementation of Project Proceeds;
Statement of Designated Account ; and
Notes to the Financial Statements.

36. The PIU will prepare consolidated IFRs in accordance with agreed formats as part of progress report. These reports will be used to monitor and supervise project implementation. The consolidated IFRs will be submitted to the Bank within 45 days after the end of each quarter.

37. The task team will monitor the accounting process, including the adequacy of the financial management system, especially during the initial stage to ensure complete and accurate financial information are provided in a timely manner

38. **Internal Control:** To mitigate risks in the area of internal control, regular oversight by the Project Steering Committee, periodic Bank supervision, and annual external audits will serve as mechanisms to ensure that project financial management system is functioning appropriately. In addition, proper authorization for payment requests, segregation of duties, and other internal control mechanisms will be defined and included in the FMM. The procedures in the FMM should be fully and adequately implemented by all the parties involved.

39. **Supervision Plan:**
MoIA prior to effectiveness to make sure the necessary conditions related to the financial management system are in place.

40. The supervision strategy during project implementation is based on its FM risk rating, which will be consultation with relevant task team leader.

Procurement

41. **Findings of Procurement Assessment.** The PIU in MoIA will be responsible for the procurement of various consulting services and technical assistance contracts under the project. Procurement of capital equipment under the grants scheme will be carried out by the PIU on behalf of the beneficiaries. The key procurement risk identified from the procurement capacity and risk assessment of MoIA is that MoIA and procedures since this is the first Bank investment operation to be implemented by MAA. The risk is complicated by the uncertainty regarding the role of the newly created Central

Procurement Agency (CPA) under the office of the Deputy Prime Minister, if any, in processing procurement under projects financed by IFIs in Mongolia. The large number of parties and transactions involved, the small value and multiplicity of contracts and the scattered location of the subprojects under the grants scheme together with the likelihood that the beneficiaries lack the necessary capacity are risk factors that contribute to the procurement risk rating for the project.

42. The limited number of staff in MoIA and the large number of donor projects underway together with the expected large number of beneficiary groups under the grants scheme under this project may mean that capacity of MoIA is overextended. This could lead to the weakening of rigor in financial and procurement management. The procurement risk rating for the project is therefore assessed as High. In order to address the identified risks, mitigation measures including the following were agreed; (i) MoIA to appoint/hire a Procurement Officer with qualifications acceptable to the Bank to start work in the PIU no later than negotiations; (ii) MoIA to establish and document in the Project Implementation Manual clear responsibilities, procedures and internal control procedures for procurement and contract management under the project; (iii) The Bank to provide accelerated and periodic procurement training to key staff of MoIA; (iv) a user friendly Project Implementation Manual (POM) which will provide guidance to beneficiaries on the details of the procurement procedures under the Grant scheme is under preparation and to be finalized by negotiations; (v) MoIA to hire consultants including, NGOs, universities and individuals to provide technical assistance and implementation support to beneficiary groups; (vi) MoIA to arrange for procurement training (using the PIM) for the facilitators and consultants who will provide implementation support to beneficiaries of the grant; (vii) MoIA to prepare and submit to the Bank quarterly procurement and contract progress reports; and (ix) MoIA

46. **Procurement Under Community Grants:** Procurement of goods, works and services under the community grants will be the responsibility of the beneficiary communities and will be based on Community Participation in procurement in accordance with paragraph 3.17 of the Procurement Guidelines and *Guidance Note for Management of Procurement Responsibilities in Community Driven Projects*. Procurement responsibilities, procedures and sample documentation will be set out in the Operational Manual and in the Community Procurement Handbook which is under preparation. The POM will include the following documents related to the handling of procurement: (a) sample formats for submitting subproject proposals; (b) format for a simplified procurement plan for procurement under the subprojects; (c) procurement methods and procedures; (d) Guidance on technical assistance required to assist beneficiaries process different types of contracts; (e) simplified bid documents and forms of agreement for works goods and services that would be used by beneficiary groups; (f) sample contract form to sign between the beneficiary group and intermediaries; (f) format for reporting on procurement and contract progress; (g) requirements for records management, monitoring and procurement auditing. The Project Operational Manual and Community Procurement Handbook will be reviewed and approved by the Bank no longer than negotiations and will be made publicly available by MoIA. Each community grant recipient will receive at least one copy of the Community Procurement Handbook that provides user-friendly guidance on the applicable procedures and requirements.

47. **Procurement Plan:** A Procurement Plan for the initial 18 months of project implementation for contracts to be signed by MoIA is under preparation by MoIA and will be submitted for Bank review by appraisal and finalized by negotiations. It will be made available updated annually or as required to reflect implementation needs and improvements in institutional capacity.

48. **Prior-Review Thresholds:** The procurement plan shall set forth those contracts which are subject to prior review by the Bank. The prior-review thresholds in the table below are indicative.

Table of Procurement Thresholds

	All for SSS							
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49. Frequency of Procurement Supervision: In addition to the periodic Bank Supervision missions, procurement post reviews will be carried out by the Bank every 12 months. The procurement post review sampling ratio for the first year in the case of contracts procured by MoIA will be one out of five contracts. The sampling ratio will be adjusted in the subsequent years based on the findings of the preceding year. In the case of procurement carried out in subprojects under the grants scheme by beneficiaries, the Bank will review the annual procurement/technical/financial audit reports prepared by independent external auditors and submitted by MoIA. The Bank however retains its right to conduct post reviews for procurement carried out in subprojects under the grants scheme during project implementation as may be needed.

50. Special Procurement Arrangements. The proceeds of the grant may be used for the retroactive financing required for the hiring of key PIU staff and advanced procurement for office equipment and vehicles. All advance procurement and contracts to be financed through retroactive financing will be subject to prior review by the Bank.

Environmental and Social (including safeguards)

51. This is a Category B project. Applicable environmental safeguard policies include: Environmental Assessment (OP4.01) and Pest Management Plan (OP4.09).

52. **Environmental Assessment** (OP4.01). An EMP was developed in accordance with Bank Operational Policy OP4.01. The EMP includes an analysis of the potential project impacts, mainly (i) impacts of improved fodder & vegetable production in project area, such as stress on water resources due to the new wells that may be dug to support increased local fodder and vegetable production and any irrigation undertaken, and soil erosion; and (ii) waste discharged from small-scale processing facilities. The EMP proposes adequate mitigation measures including Environmental specifications for contractors to mitigate construction related impacts. The EMP also specifies monitoring plan, institutional arrangements, capacity building activities, and the budget for the EMP implementation.

53. **Pest Management** (OP4.09). The project will not procure or supply any pesticides. However, pesticides may be induced by the improved fodder and vegetable production activities. A Pest Management Plan, as an annex in the EMP, has been developed, proposing necessary activities to mitigate and prevent potential risks and negative impacts of using and distributing pesticides. The proposed mitigation measures consist of (among others): (i) promoting practices which reduce risks in the handling of pesticides and minimize adverse effects on humans and the environment; (ii) promoting IPM to reduce the use of toxic pesticides; (iii) training and capacity building; (iv) introducing biological and botanical pesticides and promoting the development of alternatives like biological control methods and techniques, non-chemical pesticides and pesticides of low risk to humans and the environment; (v) strengthening monitoring; and (vi) reinforcing regulatory aspects. Implementation of the PMP will be undertaken by all partners

and stakeholders of LAMP. The PMP also specifies the institutional arrangement, monitoring requirements, and the budget for the PMP implementation.

54. **Public Consultation and Disclosure** In accordance with Bank Safeguard policies, public consultations were conducted, with local farmers and other stakeholders such as officials of project soum administration and ASIA and ADNET officials/staff, inspectors and local farmers on April 25-29 and on May 5-7, 2012. Their opinions and concerns have been taken into account in the EA safeguards documents. The EMP including the PMP was disclosed locally on September 17, 2012 at the local governmental website and province libraries. The final EA documents were sent to the Bank InfoShop for disclosure on October 31, 2012.

55. **Mainstreaming gender equity and empowerment.** This aspect will be a focus area in the baseline study and, subsequently, gender strategies will be designed to support project implementation. It is already anticipated that the income diversification program will have a pro-poor focus on female headed households. The social monitoring plan for the project will have relevant indicators for measuring impacts on participation of women in the project.

56. **Social accountability and grievance redress mechanism.** Participatory processes such as social audit, citizens report cards (CRCs) and community score cards (CSCs) that would acquire feedback on performance of the interventions and of the agencies involved in planning and execution will be the key tools used for social accountability. The SC will act as the **first tier** of the Grievance Redress Mechanism (GRM). A **second tier** GRM will be established at the aimag level and the **third tier** of the GRM will be the Project Director at the national level.

Monitoring and Evaluation:

57. **Baseline data** is currently unavailable. One of the activities the project will embark within the first six months of effectiveness is to engage the services of a consultant, if necessary, to collect baseline data for indicators with the help of DIME.

under the NLP. Thus the investment for a web-based MIS, which will constitute the backbone of the project can be justified. A server will be installed at the PIU with an access from the participating *soums* using web-based application. The system will record all relevant project input and outputs in close to real time manner. This will allow project managers at all stages and at any time to obtain relevant information about status of project implementation in order to facilitate management and supervision.

61. The MIS involves a continuous recording of project outputs. The MIS system will be designed to provide data for all necessary regular reports on project implementation including progress on physical implementation and training.

62. **Design of the MIS and MPMR:** The system will be developed at the onset of the project implementation reflecting the final design of the project and the PIM. This will avoid the need for adjustments on one hand and a backlog of information. It is suggested that the project MIS would be designed by an experienced consulting firm or individual. National consultants will be contracted for the development and establishment of the system and training of project staff in the use of the system. Emphasis will be given to make such system user friendly and compatible for use on standard computers.

63. **Progress Monitoring System:** A progress monitoring system enables continuous feedback on the status of project implementation and helps the PIU to identify specific problems as they arise. Since implementation problems and issues raised by herder groups, private sector partners, and other stakeholders for project implementing would unlikely be captured by the

66. **Midterm Project Review (MTR):** The PIU shall prepare all the documentation needed for conducting the project MTR and facilitate the carrying out of joint Government-DPs mid-term review 24 months after effectiveness date. The MTR is an important marker in assessing project progress, ascertaining reasons for under-performance and determining solutions to address implementation issues. It also affords an opportunity to revisit project development objectives, to restructure the project in view of emerging needs, and reset output and outcome indicators realistically based on lessons learned. Each implementing agency will prepare its own mid-term review report in a format supplied by the PIU. The finalized report will be collated and synthesized by the PIU before submitting to the PSC, DPs and relevant stakeholders after a workshop to validate the report.

67. **Implementation Completion Report (ICR):** Preparation of an ICR is a mandatory requirement under the provisions of the GA

68. **Independent Process Monitoring (IPM):** The quality of key processes in the project as well as honest opinions of beneficiaries would not be captured in the MIS and the progress monitoring system. Therefore, the project will set up an independent process monitoring (IPM)

activities, including (i) provision of service to beneficiaries; (ii) level of participation and inclusion of vulnerable households; (iii) benefit sharing among herder group members; (iv) level of understanding of development of value-chains and markets; (v) adherence to safeguard policies in implementing project activities; (vi) partnerships with private sector companies; and (vii) others addressed along the course of development of project activities at the field level.

tested against one another so that in each case the most effective project design components can be reliably identified and implemented throughout the project.

71. In particular during the first two years, intensive process monitoring needs to be carried out in order to improve the PIM and provision of project services to beneficiaries. Results of IMP will be presented to the project coordinator and the PIU. As prompt modifications of key recommendations for changes for the PIM need to be warranted by appropriate decisions and actions by the Project Steering Committee, the project director and the PIU.

GOLIA: Livestock and Agricultural Marketing Project



Rating	Moderate
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<p>Agriculture as the Implementation Agency. From a technical perspective, skills are likely to be in place, though as some of the approaches under the project are new to Mongolia, there is a risk that familiarity with Bank procedures would be lacking.</p>	<p>PIU. The Bank fiduciary team will train and continue to supervise activities of the recruited staff to ensure capacity is built and retained for project management purposes.</p>					
	Resp: Both	Stage: Both	Recurrent: X	Due Date:	Frequency:	Status: In Progress
<p>2.2 Governance</p>	Rating	Moderate				

highly vulnerable to extreme weather, this could limit the effectiveness of the project if a severe dzud strikes during project implementation.

Design Flexibility: The project areas have been pre-selected prior to project implementation based on criteria agreed upon by the Bank and the government. Funds have also been allocated per component. Although this is a demand-driven project, it is a challenge to identify exactly what beneficiaries will require up-front.

closely and changes will be made when necessary and in particular at mid-term, and supported by findings during supervision missions and changes made to ensuring project objectives.

During preparation, the team would work with the Ministry to try to streamline the implementation arrangements. Tv 457.85 12.72 W*Ministry

effectiveness. The commencement some of these activities has delayed, and prolonged delays will affect the implementation of the project. If both proj

emphasis is on building upon successful experiences within the country. The design has taken into account the low capacity of the implementing agency and has complimented that with a well staffed project implementation unit with considerable experience in managing other donor funded program.

ANNEX 5: IMPLEMENTATION SUPPORT PLAN

MONGOLIA: Livestock and Agricultural Marketing Project

Strategy and Approach for Implementation Support

1. The implementation support strategy design is built on the following premise:
 - (i) The implementing agency, the MoIA, is new to Bank operations and therefore not conversant with Bank operational procedures;

in the form of technical assistance within the PIU and also external during supervision to provide hands on guidance and mentoring to the implementing entities.

Skills Mix Required

<i>Skills Mix Required</i>			
<i>Skills Needed</i>	<i>Number of Staff Weeks</i>	<i>Number of Trips</i>	<i>Comments</i>
<i>Value Chain Specialist</i>	6		
<i>Horticulture Specialist</i>	4		
<i>Animal Husbandry/Nutrition Specialist</i>	6		
<i>Fodder production specialist</i>	6		
<i>Animal Breeder</i>			
<i>Procurement Specialist</i>			
<i>Financial Management Specialist</i>			
<i>Safeguards Specialist</i>			
<i>M&E Specialist</i>			

ANNEX 6: Economic and Financial Analysis

MONGOLIA: Livestock and Agricultural Marketing Project

A. Project benefits and costs

1. In modeling the impact of LAMP on rural livelihood and food security, the project team included efficiency gains in marketing and transport of LAMP products; reduced losses and mortality of animals due to improvement in breeding and animal health techniques; and reduced expected losses due to severe weather conditions (*dzud*). The project will assist herder groups to improve basic collection, handling, cleaning, sorting, packaging through the establishment of trade agreements on meat exports; enhanced skill levels of veterinarians and para-professionals and operators.

6. Important statistical data on domestic prices, production and yield, were obtained from the national statistics office.

7. Using the available primary and secondary data, the team developed and analyzed the following production models for first tier processing units.

Small scale slaughter house (meat production), milk processing units, and wool cleaning factory (wool processing), field vegetable crops, fruit crops, and storage and marketing.

Other production models that were developed include: large and small ruminants breeding-- sire and multiplier flocks, sire and multiplier flocks and female nucleus-- in the case of animal breeding activities; and fodder production units for animal nutrition activities.

C. Key underlying assumptions and notes

8. In order to perform the CBA analysis that would generate the expected benefits using the aforementioned models, the team took into account the following assumptions.

Small scale slaughter house. 340 large animals and 2,000 small ruminants for period of eight months were assumed for slaughter house facilities in *Soums* close to the *Aimag* center.

Milk processing units. The analysis assumed 3 types of milk processing units: (a) *Soum* centre-based 100 litres/day dairy unit producing pasteurized milk, yogurt, fermented curd, and butter; (b) 400 litres/day dairy unit producing pasteurized milk, yogurt, sour cream, dried curd, and butter; and (c) 2,000 litres/day dairy unit. Main investment items included: building, milk pasteurizer, cooling chambers, milk separators as well as tools and instruments, including acquisition of a motor truck for milk collection for the 400 and 2000 l/day.

Wool cleaning factory. The analysis assumed that a wool cleaning factory would produce 673 tons of graded clean wool per year.

Vegetable production, processing and marketing. For this activity, the analysis assumed the establishment of 10 ha of plot of land for vegetable production in 8 different locations, each benefiting 50 households. Three of these plots would be cultivated at first year of implementation, while the remaining five plots would be cultivated in year 2. During year 2 the project would also introduce new enterprises namely greenhouse tomato and cucumber and an expansion of fruit crops in 5 locations, as well as processing units for pickled vegetables production in 2 locations.

The analysis assumed that households will consume vegetables and fruit according to the national average as well as for family labor. *Animal health.* Average gross livestock output per animal was used as a proxy for the increase in productivity and unit value of the livestock, with significant number of animals expected to be reached by the project, including increased gross output per animal reached. Other significant assumptions are: (i) the number of animals in target *Soums* would remain within the average of the last 5 years; (ii) animals would live for four years on average and would be vaccinated once; (iii) the number of animals in the target *Soums* would be the same as the average number of animals per *Soum* in the respective *Aimag*; (iv) the project will develop its activities in 3 *soums* in each of the 5 target *Aimags*; (v) average gross output per animal was assumed to be \$86.29.

The analysis took into account the severe weather (*dzud*) condition and calculated two separate of economic rate of return (ERR) to show the impact of the weather on animal health activities. It was assumed that *dzud* occurs in every four years.

The analysis did not take into account positive externalities from project interventions as the region has considerable amount of animals vaccinated with low spread of disease. Also not included in the analysis were potential benefits to human health or recognition of some regions in Mongolia as producers of safe meat.

12 flocks with 240 males (120 rams, 120 bucks) were selected based on their phenotype, and were assumed for animal breeding interventions. Every year 80 males would be replaced, and they would mate females from selected flocks with good females typical for the breed and their herders are interested in improving their livestock quality multiplier flocks. These multiplier flocks would see a progressive increase in the quality and quantity of the wool/cashmere and in the weight of their animals and provide improved males for other flocks (production level).

An exchange rate of 1,200 MNT to 1US\$ was used for the analysis.

A discount rate of 12 percent was assumed to generate the expected NPV and ERR.

On the average, a 10-year period was assumed for the analysis.

To eliminate distortions taxes were excluded from the analysis.

Overall, the analysis took into account working capital of the production units as funding would be in the form of matching grants.

D. Results of the Analysis

9. Upon the basis of the above assumptions benefits and cost the results of the analysis are shown in table 9.1 below.

Table 9.1: Estimated Net Present Value (NPV) and Economic Rate of Return (ERR) of Project Activities

Components/Activities	Net Present Value (NPV)	Economic Rate of Return (ERR)
Subcomponent 1a: Value Chain and Market Development		
<i>Meat production</i>	148,691	56%
<i>Wool processing</i>	1,348,846	77%
Subcomponent 1b: Pilot Milk Collection and Processing Scheme		
<i>Milk processing units</i>	179,092	74%
Subcomponent 1c: Pilot Horticulture Production and processing		
<i>Vegetable production</i>	5,558,957	100.5%
Subcomponent 2a: Animal Health		
<i>Animal health with dzud</i>	42,089	63%
<i>Animal health without dzud</i>	48,037	68%
Subcomponent 2b: Genetic Improvement and Breeding Management		
<i>Large Ruminants</i>		
Artificial Insemination Development	176,147	21%
Beef Development with feed	2,327	12%
Beef Development without feed	3,969	13%
Beef Development Calves Feeding	7,576	12%
Beef development Adult feeding	35,872	13%
<i>Small Ruminants</i>		
Sire Flock	24,442	1.14%
Sire Flock Multiplier		
Breeding of Small Ruminants	1,794	23%
Female Flock	7,808	

E. Sensitivity analysis

10. To test the robustness of the analysis, a sensitivity analysis was conducted for selected project interventions through a reduction in sales prices and operating costs of the proposed activities. The analysis showed that the ERRs and NPVs of the proposed activities are not

