

Mongolia

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Mid-Term Review Mission

Main Report

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Abbreviations and acronyms

CCA	Climate Change Adaptation
EGF	Employment Generation Fund
FRC	Financial Regulatory Commission
GIZ	German Cooperation Agency
GoM	Government of Mongolia
HH	Household
IFAD	International Fund for Agricultural Development
JICA	Japan International Cooperation Agency
LDF	Local Development Fund
LGF	Loan Guarantee Facility
MMT	Mongolian <i>Tugrug</i>
MoED	Ministry of Economic Development
MoEGD	Ministry of Environment and Green Development
MoF	Ministry of Finance
MoIA	Ministry of Industry and Agriculture
MoL	Ministry of Labor
MSE	Micro and Small Enterprises
MTR	Mid-Term Review
NAMEM	National Agency for Meteorological and Environmental Monitoring
NGO	Non-Governmental Organization
PHG	Pasture Herders Group
PMP	Pasture Management Plan
PMPMD	Project for Market and Pasture Management Development
PMU	Project Management Unit
RF	Revolving Fund
SDF	<i>Soum</i> Development Fund
SGF	State Guarantee Fund
SMEDF	SMEs Development Fund
SMEs	Small and Medium Enterprises
SWOT	Strength, Weakness, Opportunity and Threats analysis
TC	Technical Committee
TWG	Technical Working Group
USD	United States Dollars
UMPSC	Union of Mongolia Production and Services Cooperatives
VC	Value Chain
WG	Women's Group

A. Introduction¹

1. An IFAD Mid-Term Review Mission visited the project from 15th June to 5th July 2014. The objective of the Mid-Term Review is to evaluate the financial and physical progress made in the implementation of the programme activities and to recommend any corrective action and reallocation of funds deemed appropriate to achieve the programme's objectives. In particular, the mission has: (i) reviewed the performance and progress of the project; (ii) assessed achievements, constraints and initial impact of the project in relation to the expected project objective; (iii) assessed the institutional and implementation arrangements, project costs and financing, in view of progress achieved and changes occurred since appraisal; (iv) reviewed compliance with loan and grant covenants; (v) recommended adjustment, reorientation and improvement in the project design, including its future strategy and directions, as may be required to achieve such objectives, and (vi) recommended amendments to the Financing Agreement.
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 Ministry of Economic Development (MoED), the Ministry of Environment and Green Development (MoEGD), the Union of Mongolian Production and Service Cooperatives (UMPSC), AGROM, commercial banks (State Bank and Capital Bank), the Financial Regulatory Commission (FRC), the State Guarantee Fund (SGF), the MoL-monitored Employment Generation Fund (EGF) and SMEs Development Fund (SMEDF), the JICA-financed Two-Step loan project, the National Agency for Meteorological and Environmental Monitoring (NAMEM), the Green Gold project, the Procurement Department of MoF. The mission undertook field visits from June 18 to June 26, 2014 to selected *soums* in Khentii, Bulgan and Huvsgul *aimags* where it met with project-supported women and entrepreneurs beneficiaries, *aimags*, *soums* and *bags* governors and local authorities, bank branches managers, pasture herders' groups leaders and members, local facilitators and staff from implementing and partner agencies.

¹ Mission composition: Mr. Thierry F. Mahieux (Mission Leader, Rural Finance and Value Chain Specialist); Ms. Sunae Kim (Environment and Climate Change Portfolio Officer, APR/ECD); Mr. Batjargal (Pasture Management Specialist), Ms. Irene Li (Finance Office, CFS IFAD who worked in Mongolia from June 23 to 28); Mr. Shankar Kutty (Procurement Advisor, APR IFAD who worked in Mongolia from June 24 to July 3); and Ms. Yurie Naito (Admin/Programme Analyst, APR IFAD who worked in Mongolia from June 28 to July 5). Mr. Tsetsenbaatar (pasture management and climate change adaptation coordinator); Ms. Altantsetseg (microfinance and women's groups), Ms. Gun-Uyanga (M&E officer); Ms. Nasandelger (value chain development), Ms. Idermaa (office manager) from the PMPMD PMU, and Mr. Lhagvadorj (PMPMD LGF Unit, officer) as well as representatives from the Union of Mongolian Products and Services Cooperatives (service provider for micro-enterprise development sub-component), and Ms. Munkzhul (representative from the State Bank Headquarter, Credit division) joined the mission during its field visits.

4. The wrap-up meeting was held on July 2nd, 2014 chaired by Ms. Erdenejargal Tumurbaatar, Director of International Cooperation Division, Department of State Administration and Management, Ministry of Industry and Agriculture, with participants from MoF, MoIA, MoL, MoED, MoEGD, partner commercial banks, FRC, UMPSC and AGROM, 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 *aimags* and *soums*.

B. Overall assessment of project implementation

6. Overall, the project implementation progress is moderately satisfactory. The staffing of both the PMPMD PMU and PMPMD LGF is now complete. The Pasture Management and Climate Change Adaptation component is implemented according to plan. Most significant progress under this component includes: (i) change in the attitude of herders, *soum* and *bag* governors towards the needs and importance of sustainable pasture management; (ii) enhanced appreciation of Pasture Herder Groups (PHGs) and their positive role in strengthening community or social ties, and (iii) increased interest of herders in PHGs. Such a change in attitudes is driven by a good mix of capacity building, improved awareness on pasture management and relevant level of investments introduced to boost PHG activities. The implementation of the Market Development component is still lagging behind due to: (i) the late recruitment of the Value Chain coordinator, and (ii) the later than expected signature of amended guarantee contracts and agreements with interested commercial banks. However, compared to last year's situation, a significant improvement has been noted by the mission: (i) extension of credit/refinancing lines to two commercial banks to be used for the financing of PMPMD-supported women's groups; (ii) extension of portfolio guarantees to cover the risk on loans extended to women's groups, and (iii) selection of 15 local SMEs that will benefit from guaranteed debt financing, training and capacity building from the project.
7. To ensure sustainability of PHG activities and foster concrete improvements in pasture conditions and livelihoods of herders, the following areas still need to be enhanced: (i) improvement of pasture condition monitoring system and indicators, (ii) increased adoption of innovative technologies and approaches for sustainable pasture management, (iii) evidence-based and consideration of environmental impacts and conditions in selecting climate change adaptation investment, (iv) contracting external technical advisors in light of stretched PMU's role from project management to implementation, (v) clearly delineated roles and responsibilities of local government officers (ex. pasture management officer and weather officer) and sustainability of the role of *soum* facilitators and, (vi) nation-wide knowledge management system disseminating collected data to *bag/soum* level.
8. The extension of loans by participating banks from resources provided by the project under a credit/refinancing line has not been in accordance with the agreements, contracts and manual of procedures duly approved by all partners. In particular, most women's groups have been requested by the two participating banks to provide collaterals and guarantees the value of which would amount to 100% and above of the loan requested. These collaterals and guarantees are additional to the guarantee extended by the PMPMD LGF Unit equivalent to 80% of the loan amount. Considering the novelty of the credit guarantee mechanism, further capacitating of local bank branches' staff is highly recommended. PMPMD LGF Unit should ensure the effectiveness of the implementation of guarantee contracts. Less significant is the issue related to grace period as the repayment rate for loans extended since June 2013 is reportedly to be 100%.
9. The PMU reported that the financial delivery rate against the 2014 AWP&B would be around 90%, while it currently stands at 20.1% for IFAD Loan and 19.5% for GEF Grant. Physical

delivery rate against the 2014 AWP&B is also expected to be around 90% while currently standing at 20% for IFAD Loan and 20% for GEF Grant. Such high expected delivery rates against the AWP&B are commendable.

C. Outputs and outcomes

Pasture Management and Climate Change Adaptation.

10. The Pasture Management and Climate Change Adaptation component aims to institutionalize sustainable pasture management practices through pasture herder groups and enforced pasture management plans by local government and to improve herders' resilience to climate change impacts. The implementation of the Pasture Management and Climate Change Adaptation is through: (i) pasture management planning through sustainably maintained pasture herder groups; (ii) strengthening pasture management institutional structure through capacity building and knowledge management of herders and local government; and (iii) pasture management plan implementation and climate change adaptation investment. Pasture Herder Groups are bringing in positive changes in the way communities manage pasture land together, increasing local government's attention to sustainable pasture management practices. The overall performance of the component is moderately satisfactory.
11. **Pasture Land Management.** This subcomponent comprises of two main activities: (i) formation of Pasture Herder Groups and generation of PHGs' Pasture Management Plan, and (ii) *soum*-level pasture management planning in consideration of Pasture Management Plan produced by PHGs. Thus the main expenditures under this subcomponent have been limited to the contract with service providers and the recruitment of *soum* facilitators. The performance of this subcomponent is rated as moderately satisfactory.
12. **Establishment of PHGs and preparation of PHGs' Pasture Management Plans.** As 60 additional PHGs have been formed by 2014, a total of 120 PHGs (100%) are receiving the project's support. Overall, joint management of pastures was improved and attitude of herders and local authorities to collective pasture management has been changed in project target aimags. Interviews and outcome survey results confirm that joint management of pastureland is happening in all target *soums* due to project interventions such as establishing herder groups, executing PMPs, trainings and investments. PHG work and PMPs encouraged herders to manage the pastureland collectively in appropriate manner. Collective approach for pasture management is well received by the local *soum* authorities, confirmed by one case where a written participatory pasture use procedure for *bag* and *soum* was ordered. Despite the positive receipt of the project intervention on supporting *soum*-level pasture management planning through PHGs, almost all interviewees acknowledged non-PHG members behavior as a threat and highlighted the needs to expand the coverage of training and strong promotion of PMP amongst non-PHG members as well. The MTR addresses this issue under the second subcomponent and intends to maintain the first subcomponent's focus on PHGs.
13. Although most PHG leaders accepted the role of leader with pride and full commitment despite its volunteer nature, the current system which requests leaders' own spending to fulfil leader's roles was often mentioned as a key constraint. *Soum* facilitators faced a similar difficulty when job-related expenditures such as motorbike maintenance costs need to be covered by themselves. *The mission recommends introducing a system/contract which reimburses job-induced costs for PHG leaders and full coverage of soum facilitators' job-related expenditures by the project.*
14. Under the contract with the previous service provider, and with an aim at including as many herders into the PHGs, the variance in the PHGs' size is quite large. In Khentii *aimag*, the mission observed that one PHG with more than 70 HH ended up developing into three sub groups. To achieve effectiveness of project's efforts, the herder group's size should be maintained at the appropriate level. While several interviewees including herders, herder group leaders, *soum* facilitators and other international project staff view that a PHG with 20-30

members is most appropriate, approximately 30% of PMPMD-supported PHGs have currently more than 30 HH, including cases with more than 70 members. *The mission recommends that at least the 60 newly created PHGs should maintain their size around 40 HH even if this means more than 120 PHGs are created under the project. IFAD should be informed of the newly revised number of PHGs by October 2014.*

15. To ensure the sustainability of PHGs, *the mission recommends that after project's completion the current soum facilitator's position becomes a permanent position paid under GoM budget to further assist PHGs and cooperatives. The mission also recommends PMU to assist MoIA to redraft the soum level pasture management officer's TOR and daily tasks to focus on services related to PM.*
16. ***Soum pasture management planning in consideration of Pasture Management Plan produced by PHGs.*** To date, 60 PMPs have been developed and efforts are being made to integrate them into *soum* pasture management plans; 60 more PMPs are in the process of development by the new herder groups selected by *soums* with the close guidance of the PMU. During the field mission, *soum* governors repeatedly expressed that PMPs is formalized through participatory meetings at *bag* level and consolidating with *soum* pasture management plan that are further approved by the *Soum* Parliament. The mission acknowledges that the local government has no legal rights to determine group boundaries and approve herder groups' PMPs and that integration of group plans with *bag* level plans is essential. Yet, during the planning process, the project supported herders are well represented in *bag* meetings whereas other herders' participation is low which negatively affect agreed actions amongst project group members and their plans are not implemented. Interviews with herders confirm that non-project herders do not recognize groups' agreement and breach it. *Bag* governors lack time, capacity and budget to involve all herders to discuss pasture issues in the bag meetings. The mission reiterates that the more the herders participate in PHGs, the more effective and fruitful the meeting and the implementation of the *bag*-level pasture management planning meeting are.
17. All target *soums* have been allocating budget for pasture management from Local Development Funds (LDF) such as rehabilitating and constructing broken wells and placing settings for predatory birds to control rodents as per the LDF guidelines. LDF allocations should not adversely disadvantage herder groups who are getting minimal support from the project. To avoid such a case, the mission provides guidelines aligning project's investment with *soum* pasture management plan. Several supporting actions are also advised by the mission under the sub-component 2.
18. ***Strengthened Pasture Management Institution.*** This subcomponent mainly focuses on improving knowledge and capacities in five areas: (i) pasture management, (ii) KM on pasture conditions and weather, (iii) climate change, (iv) livestock health and breeding and (v) cooperatives. The assessment of this subcomponent is moderately satisfactory.
19. ***Training on Pasture Management.*** Newly selected service provider, AGROM NGO, is providing training for herder groups. AGROM completed training in Arhangay and Khuvsgul *aimags* while in remaining *aimags* training will be provided during the second half of 2014. Hand-outs and other materials for training developed in close consultation with the PMU are being distributed to herder groups. The training of pasture management should also seek to include innovative and up-to-date knowledge. There are new school of thoughts which promote sustainable pasture management through technical assessment of and adherence to precise rotation periods rather than focusing on reducing the number of livestock. This type of approach is very similar to traditional Mongolian herders' practices which are unfortunately disappearing (ex. mobility period changed from 14 days to 2-3 months). *The mission recommends the PMU to seek further technical guidance on innovative pasture land management techniques and include them in the training materials in partnership with an appropriate institute. Technical advice will be provided by IFAD when requested. The mission also supports the PMU to*

organize knowledge sharing (best practice) sharing workshop or study tour for PHG leaders and selected members.

20. As previously mentioned, the main obstacle of integrating PMPs into soum/bag pasture management planning was the absence of collaboration of non-PHG members or their lack of awareness in pasture management. *The mission recommends the PMU to include all herders in a particular soum in training on pasture management.*
21. **Knowledge management on pasture conditions and weather.** While *Bag* parliament members are the most influential people in official pasture management planning, they are not provided with updated data on pasture conditions and water. Any pasture condition data collected by *soum* weather officers are consolidated and transformed into GIS-based information by NAMEM but the final result is not disseminated back to *bag* officers and herders. *The mission recommends the PMU to develop a scheme of participatory pasture monitoring (ex. simple photo-based observation) and of periodic information sharing with soum and bag officers and with PHG leaders.* This will also serve as PMU M&E on pasture condition monitoring. As to the weather information, the PMU is seeking ways to provide weather information to herders through a contract with mobile companies. *The mission supports the PMU's current effort and recommends scaling it up to all project aimags.* To strengthen the already growing awareness and knowledge of *bag* officers in sustainable pasture management planning and to increase their understanding of PHG, *the mission recommends the PMU to organize a study tour of bag and soum officers together with soum facilitators for the best PM practices within the country.*
22. **Training on climate change and adaptation technologies** will take place in second half of 2014. Curriculum is under development in discussion with relevant institutions. MoEGD and other international organizations including GIZ have been conducting CCA trainings in the country. *The mission recommends the MoEGD to take up the advisory role in the implementation of CCA training and its quality control.*
23. **Training on veterinary and breeding.** In continuation of 2013 activities, training in livestock health and breeding is being provided by relevant professional organizations including the distribution of 2 sets of manuals and hand-outs. Trained officers are training 4 herders each in their *soum* to work as PHGs' advisors. Some *soum* officers did not acknowledge the value of those trained advisors thinking that the highly technical skills of veterinary services cannot be provided by those short-term trainees and anticipates the role of advisors as mere administrative support providers. *The mission recommends the PMU to evaluate the current role of trained advisors and the extent of supports expected by advisors.*
24. **Training on cooperatives.** It is recognized by herders that cooperatives and PHGs have distinctive objectives and require their own operational arrangement and institutional support, and thus should exist separately. In the meantime, the mission highlights that a strong and active PHG is a key to the success of herder cooperatives. Where PHGs are established and trust between members has grown rapidly, interest in cooperatives is greater and actual participation is higher. In Khuvsgul *aimag*, the only active cooperative is based on a PHG. The mission concludes that PHGs are the most efficient first step towards cooperatives and *soum* facilitators can play a greater role in supporting PHG members to join the cooperatives. Noting the already stretched facilitator's role, *the mission recommends the PMU to contract a short-term liaison officer to provide assistance to soum facilitators with regard to delivery of cooperative-related information and education material delivery.* In addition, the project based on its experience with PHGs (as well as with women's groups) should assist the MoIA to further design guidelines and roadmap for the transformation of groups into cooperatives including best practices and case studies taking into consideration the duality of herders' activities (non-productive activity such as pasture management and condition monitoring and productive activity such as income generating activities related or not to livestock). A roadmap and guidelines will be included in a specific Working Paper annexed to the MTR mission's report.

25. **Implementation of land management plan and CCA investment.** CCA investment strategy of the project has been providing support for PHGs in line with the implementation of their pasture management plan. This has proven highly effective in generating interests of herders to form PHGs and enjoy the strengthened social and community benefits at the initial stage. This sub-component needs to be implemented with two objectives: (i) further provision of investment for PHGs based on their PMPs which are reflected and consolidated in *bag*-level planning, and (ii) provision of investment in accordance with *bag/soum* land management plan in order to encourage herders' attendance at *bag*-level planning meeting and to promote non-project supported herders' interest in sustainable pasture management. The assessment of this subcomponent is moderately satisfactory.
26. To date, (i) three water harvesting points have been constructed and three more are planned for 2014; (ii) 29 out of 100 target spring sources are fenced and 30 more to be done in 2014; (iii) 23 wells were drilled and the remaining 23 wells are planned for 2014; (iv) approx. 10 % of hay making target areas are fenced (total 120 spots (approx. 720 ha) are planned and 75 ha have been fenced by 2013); (v) 1 out of 10 hay/fodder storage is provided and 4 are planned for 2014; (vi) winter shelter, which had been cancelled in 2012, was re-proposed to construct 15 shelters in 2014; (vii) 30 out of 100 solar panels had been distributed in 2012 and cancelled since then; (viii) 30 out of 120 target sprinklers had been purchased but 22 are not used by herder groups; (ix) 60 out of 120 tractors were provided and additional 60 procured in 2015; (x) provision of bird sitting for rodent control is newly proposed since 2014; (xi) 3 automated weather stations were purchased in 2013 and 4 more in 2014, and none were reported to be installed yet; and (xii) one broken well was rehabilitated in 2013. None of 2014 investment activities has been yet delivered, but PMU confirmed groundwork is progressing.
27. In acknowledgement of different investment needs of PHGs and *soum* authorities, the 2013 supervision mission recommended that "project investment decisions should be based on a needs assessment carried out at PHGs level". Also it was shown through the outcome survey report in 2014 that the effectiveness of some investment activities could be improved. One out of 4 said the sprinkler was least useful, and the provision of solar panels also ranked low. As far as water harvesting points which ranked low according to herders interviewed are concerned, the mission estimates that technical opinion of a proper institute should be sought on a case-by-case basis. The consolidated needs assessment report has not been formally submitted to IFAD. Evidence of the use of need assessment in the 2014 planning process for investment should be properly documented and sent to IFAD by PMU. *The mission recommends that the project investment planning until 2016 should be submitted to IFAD with the outcome of needs assessment and technical opinions from relevant institutions. Animal dipping bath for veterinary service was often mentioned by herders and soum officers as potential investment and such investment should be included in the survey as well.*
28. The outcome survey results confirms that PHGs' capacity to better cope with climate change variability and extreme events has been improved through project activities and investments while extending grazing areas, preparing more hays than before, and improving access to water points. As the project progresses, it was observed that the active participation of non-PHGs' members at *bag* level PMP meetings is critical for *soum* level sustainable pasture management. This requires the project's support in improvement of resilience of all herders as *soum* and *bag* levels. *The mission recommends that project's investment is to be made based on PMPs that are effectively reflected in the bag pasture management plan. In addition, subject to availability of project resources, consideration should be given for additional investment at soum level when Local Development Funds are allocated in line with the soum land management plan.*
29. As of May 2014, all groups established their PHG Revolving Funds (PHGRF) and a total of MNT 148 million (47.2%) has been accumulated in PHGRF out of MNT 314.8 million to be accumulated from the repayment of tractors and sprinklers supplied to 60 herder groups. Repayment of equipment is varying from one *aimag* to another - Bulgan and Arkhangai

aimags above 50% repayment and Gobi-Altai *aimag* with a low 20%. The low demand for sprinklers (22/30 not used by PHGs) which negatively impacts on repayment rate is due to the recent good rainfalls or lack of interest in the use of sprinklers for vegetable growing. The project provided guidance to use sprinklers for irrigation of hayfields but no group is using sprinkler for the hay field irrigation.

30. So far no collective activity is financed by the PHGRF to benefit all group members. As of May 2014, a total of MNT106.3 million has been distributed to 185 members of groups as a loan. Currently repayments amount to approx. MNT 3 million. The mission also observed that the management of PHGRF creates additional workload for PHG leaders who are working on a voluntary basis with travels for each loan to *soum* centre on their personnel expenses because leaders are required to provide a second signature to release the loan. A short-term consultant is recruited to establish and monitoring the use of PHGRFs. *The mission supports that a fee of the loan could be charged to compensate the time and expenses of PHG leaders and recommends the PMU to submit the conclusion and recommendation of the local consultant to IFAD.*
31. Understanding that the initial period of the project was needed to focus on the formation of PHGs; the mission reminds that it is important to pay attention to improved livelihoods of the poor herders, as the overall project objective states, during the remaining project period. *The mission supports that herder group's revolving funds are to be used for poor herders' livestock restocking.*

Agreed action	Responsibility	Agreed date
To elaborate a reimbursement mechanism for job-induced costs for PHGs' leaders and <i>soum</i> facilitators	PMU, MoIA and MoF	December 2014
To maintain PHGs size up to 40 members	PMU	On-going
To redraft <i>soum</i> pasture management officers' ToR and to reorganize their daily tasks	PMU, MoIA	September 2014
To initiate discussions with MoIA for the permanency of <i>soum</i> facilitators' position after project completion	PMU, MoIA	December 2014
To include innovative pasture land management techniques in appropriate training	PMU	August 2014
To include all herders in a given <i>soum</i> in training on pasture management	PMU	On-going
To develop a pasture condition monitoring scheme and periodic information shared with <i>soum</i> and bag officers and PHGs' leaders	PMU	September 2014
To organize a study tour	PMU	On-going
To ensure MoEGD leadership in CCA training provision and quality control	PMU - MoEGD	July 31 st , 2014
To contract a short-term liaison officer to assist <i>soum</i> facilitators for cooperative issues	PMU	September 2014
To submit consolidated needs assessment to IFAD	PMU	September 2014
To ensure that project investments for PHGs are in line with needs assessment outcomes and technical opinions of relevant institutions	PMU	On-going
To ensure alignment of CCA investments with bag pasture management plans	PMU	On-going
To consider additional investments subject to funds availability at <i>soum</i> level where LDF are allocated in line with <i>soum</i> land management plan	PMU	On-going
To submit report of local consultant on PHGRFs	PMU	September 2014

Market Development.

32. The Market Development component's objective is to promote poverty reduction and livelihood improvement through economic development and consists of: (i) value chain development; (ii) small and micro-enterprises development, and (iii) loan guarantee and credit line. The implementation of the component activities is vested with: (i) the Union of Mongolian Products

and Services Cooperatives for the micro-enterprises development; (ii) the PMPMD PMU Value Chain Coordinator for the value chains and SMEs development, and (iii) the PMPMD Loan Guarantee Facility for the loan guarantee and credit line. Significant improvements are to be noted in the implementation of SMEs and Value Chains development and strengthening sub-components since the recruitment of the Value Chain Coordinator. The overall assessment of the Market Development component is moderately satisfactory.

33. **PMPMD LGF institutional and operational implementation.** The PMPMD LGF is an integral part of the PMPMD PMU, created by Order of the State Secretary of MoF dated March 1st, 2013 while its Technical Committee has been created by order of the Chairman of the Project Steering Committee dated April 11th, 2013. To further integrate the PMPMD LGF in the Government of Mongolia's policies and to ensure full compliance with the Law of Mongolia on Credit Guarantee Fund, hence avoiding potential legal and/or regulatory risks, *the mission recommends: (i) to enlarge the membership of the PMPMD LGF Technical Committee to include the following additional members: one representative from the Ministry of Economic Development; one representative from the bankers' association, and one lawyer (preferably from the Central Bank Legal Unit); (ii) to admit a representative from the State Guarantee Fund as observer, and (iii) to modify the responsibilities and modalities for committing and signing guarantees and guarantee contracts.* Based on a thorough analysis carried out by the PMPMD LGF unit, the PMPMD LGF Technical Committee should review each individual guarantee and guarantee contract and make appropriate recommendations to the MoF State Secretary who has the responsibility of signing guarantees/guarantee contracts or delegates the signing authority to his mandated. As the PMPMD LGF Unit is an integral part of the PMPMD PMU, *the mission recommends that the PMPMD LGF Unit should submit all physical and financial reports and transactions and operations carried out by the PMPMD LGF Unit (credit line, guarantee issuance and operational costs) for the PMU to consolidate them in its financial statements and for reporting.* In that respect, *the mission also recommends that a meeting be convened including representatives of MoF, MoIA, Auditor General and FRC to determine the most appropriate procedures and relevant signatories for the approval of PMPMD LGF guarantee contracts, pay-outs and operating expenses, as well as the legal authority for the establishment of the TC.*
34. To facilitate the monitoring of its activities, the PMPMD LGF Unit requires specific tailored-made software enabling the monitoring of its activities and performances with regards to the extension of credit lines and issuance of guarantees. *The mission recommends the submission of a proper budget by PMPMD LGF for the procurement of basic database software available in Mongolia and the procurement of a local service provider to fine-tune the database to the requirements and activities of the PMPMD LGF operations.* To facilitate the future merger, *the mission recommends the PMPMD LGF to discuss the proper software development with the SGF.* The software and the service provider should be procured before the end of August 2014.
35. The PMPMD LGF Unit is currently composed of 2 staff: the Unit Manager and a Unit Officer. Considering the necessary collaboration with the State Guarantee Fund especially in terms of training of participating bank's staff at both headquarter and local levels, training of entrepreneurs benefiting from a guarantee, and developing an awareness campaign on guarantee issues, *the mission recommends to maintain the PMPMD LGF Unit staff at its current level* (any additional need for new staff should be properly documented in light of projected activity and collaboration with SGF, subject to availability of income flows and IFAD concurrence). An agreement should be signed between the State Guarantee Fund and the PMPMD LGF Unit for the participation of the latter in all training sessions organized by the State Guarantee Fund. *The mission also recommends expediting the procurement of the PMPMD LGF Unit vehicle.* Under the supervision of the PMPMD PMU Director, this vehicle is to be used by the PMPMD LGF Unit staff for its official activities related to guarantees and credit lines and by the Value Chain and SMEs Development coordinator for the monitoring of her activities in the field. To the extent possible, *the mission recommends joint missions to be*

organized between the LGF Unit staff and the Value Chain Coordinator to minimize operating costs.

36. **PMPMD LGF financial activity.** The overall assessment of PMPMD LGF sub-component is moderately satisfactory. The PMPMD LGF financial activity includes: (a) the provision of refinancing lines to State Bank and Capital Bank when extending loans to the PMPMD-supported women's groups to palliate the limited access of PMPMD-supported women's groups to EGF resources, and (b) the provision of guarantees to commercial banks when extending loans to PMPMD-supported target beneficiaries (women's groups, suppliers' groups and micro- and small enterprises). As of May 2014, (i) the PMPMD PMU has transferred USD 0.5 million (MNT 768.2 millions) onto the PMPMD LGF credit lines bank account and USD 0.9 million (MNT 1.422 billion) onto the PMPMD LGF guarantee bank account; (ii) the State Bank has received an amount of USD 0.4 million (MNT 625 million) and has extended 63 loans amounting to USD 0.37 million (MNT 679.5 millions) to PMPMD-supported women's groups; (iii) a refinancing loan amounting to USD 0.1 million (MNT 143.3 millions) has been processed to Capital Bank and the latter has extended 16 loans to the PMPMD-supported women's groups; (iv) there was no balance of funds available on the credit/refinancing lines at State Bank and Capital Bank respectively, and (v) the revolving fund in which women's groups repayments are accumulated amounts to USD 45,400 and USD 12,600 for the State Bank and Capital Bank respectively.
37. Seven guarantee agreements/contracts have been signed by the PMPMD LGF with State Bank, Capital Bank, Golomt Bank, Ulaanbaatar City Bank, Trade and Development Bank, Chinggis Bank, and XacBank. The capitalization of the PMPMD LGF by the programme amounts to USD 0.9 million (MNT 1.42billion) representing 30.8% of the total revised budget allocation. To date, a global portfolio guarantee for loans provided to women's groups has been extended to the first two banks only including 79 guarantees covering loans extended to PMPMD-supported women's groups for a total amount of MNT 822.8 million. To date, the maximum liability of the PMPMD LGF amounts to MNT 658.2 million (equivalent to USD 0.36 million).
38. Discussions with stakeholders involved in the micro enterprises development sub-component have highlighted some dysfunctions in the implementation of the PMPMD LGF guarantee contracts: (a) both the State Bank and Capital Bank, when extending loans to PMPMD-supported women's groups, request collaterals and guarantees equivalent to 130% or above of the loan amount (according to the Union of Mongolian Production and Services Cooperatives' annual report on its activities in 2013-14, only 35.8% of women's groups has provided collaterals amounting to less than 40% of the loan amount), in contradiction with the signed guarantee contracts. The mission reminds participating banks that the PMPMD LGF guarantee is one of substitution and not one of addition. In that respect, the market value of collaterals and guarantees requested by participating banks in addition to the PMPMD LGF guarantee should be comprised between 20 and 40% of the value of the loan. The mission identified during its discussions with branch managers at *aimag* and *soum* levels that information on the PMPMD LGF guarantee mechanism and contract has not been effectively communicated by the participating banks' headquarter to their local branches. Considering the novelty of guarantee schemes in Mongolia, *the mission recommends: (i) to amend guarantee contracts signed with participating banks to reflect the maximum market value of collaterals and guarantees to be comprised between 20 and 40% of the loan amount when extending a loan to a PMPMD-supported women's group; (ii) to request from participating banks the immediate release of collaterals in excess of the amount stated in the revised guarantee contracts; (iii) the PMPMD LGF Unit to participate in training sessions organized by banks for their branch staff and present the overall project and specifics of the PMPMD LGF guarantee scheme, and (iv) the participating banks at local and headquarter levels to participate in the training of PMPMD-supported beneficiaries (especially with regards to business planning and financial projections as well as financial and cash-flow management), and (b) both the State Bank and Capital Bank do not regularly propose grace period to women's groups. In most cases, women's group's*

- activities' cash-flow situation is tensed except for petty trade activity. In that respect, *the mission recommends participating banks to award a grace period for principal repayment on the basis of a thorough cash-flow analysis for the first months of women's groups' activities (the SLA stipulates that grace period could cover up to 12 months).*
39. To ensure compliance with the Law of Mongolia on Credit Guarantee Fund and compliance with international financial best practices, *the mission recommends the signature of a Memorandum of Understanding between the MoF and the FRC on the PMPMD LGF outlining the reporting, monitoring, supervision and auditing of the PMPMD LGF operations.* In addition, the mission reminds that the LGF Unit should prepare a strategy and plan for investing LGF funds by end of July for review by Technical Committee and IFAD before final approval by the Financial Regulatory Commission. The operating expenses of the LGF unit should be covered by the revenues of the LGF investment as soon as possible, to ensure long term sustainability of the LGF operations.
 40. The State Guarantee Fund's main objective is to extend individual guarantees (covering up to 60% of the requested loan amount) to SMEs with deficient collateral, when financed by qualified banks and financial institutions. This objective overlaps with the PMPMD LGF's one that also includes the issuance of guarantees for SMEs with deficient collateral in specific value chains. While the issuance of guarantees for SMEs in PMPMD area should remain an objective of the PMPMD in its target area, the mission considers that the issuance of guarantees to SMEs outside PMPMD targeted *aimags* creating confusion among rural population and financial market disturbance. On the other hand, commercial banks are extending loans amounting to maximum MNT 5 million (USD 2,700 - half the maximum amount of loans extended to PMPMD-supported women's groups) with resources provided by the Employment Generation Fund (EGF). Considering the IFAD traditional target population consisting of the poor rural households and entrepreneurs, and the harmful competition between the PMPMD LGF and the SGF on a limited SMEs market across Mongolia, *the mission recommends the PMPMD LGF to stop issuing its guarantees to SMEs outside the PMPMD-targeted aimags and to issue guarantees to beneficiaries of bank loans extended across the whole country from resources allocated by the EGF.* The mission also reminds that loans extended by Soum Development Committees are not eligible to the PMPMD LGF guarantee facility as these loans are not extended through the financial sector.
 41. **Women's groups.** The assessment of the women's groups sub-component is satisfactory. From the first batch of 110 groups formed in 2012 and trained in 2012-13, 95 have received a loan from commercial banks using the PMPMD's line of credit (MNT 822.7million or USD 0.47 million) while 12 have received a loan from commercial banks using the funds from the Employment Generation Fund (MNT 48.8millions or USD27,500). Reportedly, for both participating banks, the repayment rate is 100%. All loans extended to women's groups have benefited from the PMPMD loan guarantee. For the season 2013-14, the NGO has recruited 15 soums coordinators and has assisted in the formation of 150 groups, as well as in the capacity building of their members and the submission of their business plans and loan applications to participating commercial banks. As at May 2014, 9 loans have been extended by commercial banks to women's groups formed in 2013: 5 using EGF's resources, 6 using the Revolving Funds formed with the repayments of loans extended to the previous batch of women's groups. All loan applications are under review at participating commercial banks and loans should be extended very rapidly (in line with the seasonality of activities financed). *The mission recommends the PMPMD PMU to expedite the transfer of the second credit line onto the PMPMD LGF credit lines bank account (for an amount of USD 0.8 million or MNT 1.44 billion).* Discussions with *soums* and *aimags* governors have highlighted the extreme success of loans extended by the project to its women's groups and the demand largely unmet for similar loans in PMPMD-targeted soums and outside. Discussions with women's groups having or not benefited from a project's loan as well as with branch managers of participating banks have highlighted the necessity to further provide training to women's groups especially with regards to financial management, bookkeeping, business planning and cash-flow management. *The*

mission recommends these trainings to be provided to newly formed women's groups by the UMPSC in collaboration with participating commercial banks. In line with the GoM's policy, the project is promoting cooperative as a more adequate legal status for women's groups (access to loans from commercial banks as a cooperative, specific cooperative law protecting cooperatives and their members, enhanced possibility to engage into contractual agreements with other stakeholders). A few cooperatives have been created by women's groups as the result of the transformation of the women's group or the transformation of several women's groups into one cooperative. *The mission recommends to further promoting the transformation of women's groups into cooperatives on a voluntary basis.* Above-mentioned trainings ensure a correct implementation of these cooperatives.

42. **Access to governmental funds' resources.** Despite on-going discussions held between the PMPMD PMU and LGF, the MoF and the MoL monitoring the EGF and the SMEDF, no concrete arrangement has been found related to the financing of PMPMD-supported women's groups that also constitute the core eligible beneficiaries of the EGF, hence the PMPMD credit lines to finance women's groups created in 2012 and 2013. For women's groups formed in 2014 and to be financed in 2015, and on the basis of the 2013 and 2014 financing experience, *the mission recommends to tentatively reallocate from the resources allocated to the guarantee mechanism an amount of approximately USD 0.3 million (MNT 500 millions) to be extended to participating commercial banks in the form of a credit line for State Bank and a refinancing line for Capital Bank, to be used to finance women's groups in 2015.* The final amount to be used for the credit line will depend on: (i) number of women's groups effectively formed and accepted for financing by participating commercial banks, (ii) average amount of loan requested by women's groups; (iii) amount accumulated in both PMPMD Revolving Funds, (iv) number of women's groups that can be financed by the EGF, and (v) number of women's groups that can be financed by the *Soum* Development Fund (without benefiting from the guarantee of the PMPMD LGF as these loans are not extended through commercial banks). The mission reminds that a preliminary agreement was reached on a pilot basis with the MoL based on an increased ceiling for loans extended by commercial banks with resources from EGF (up to MNT 10 million against MNT 5 million currently) in exchange for the PMPMD LGF to extend guarantee for all loans funded by EGF. Should this agreement become effective, there will be no need for a reallocation of resources from the guarantee facility to credit lines. Since the credit line will only be used from May 2015 onward to finance women's groups formed from September 2014, the MoF should engage dialogue with MoL on the above-mentioned issue and submit IFAD with a solution for the financing of these new women's groups (alternative 1 being the financing by MoL/EGF while alternative 2 is the financing under a new credit line, the resources of which will be drawn from the guarantee resources).
43. **SMEs development and strengthening.** The overall assessment of the SMEs development and strengthening sub-component is satisfactory. Eleven SMEs, 3 cooperative (ex PMPMD-supported women's groups having graduated into a cooperative) and one individual business have been selected by the VC coordinator and approved by the MoAI TWG for Value Chains to enter in the SMEs development sub-component. Activities carried out by these SMEs mainly include: milk processing, wool processing, crop processing, vegetable production, tea processing and meat processing. In order for these 15 SMEs and cooperative to benefit from better terms and conditions, they have been introduced to commercial banks and also to the JICA two-step loan project: 9 SMEs and cooperatives have already received a support letter from JICA, 1 SME has decided to postpone its request for a loan to 2015; the single-shareholder enterprise was rejected by JICA (not eligible JICA's requirements and can be financed), and 4 are under review. Approval from commercial banks (USD 3.1 million) of which MNT 4.0 billion (USD 2.2 million) in the form of a bank loan; (ii) over 1,000 additional suppliers, and (iii) average increase in net profit per investment of MNT 349 million. The PMPMD LGF guarantee to be provided to commercial banks would amount to MNT 2.0 billion (USD 1.1 million). In addition to the financial support, the programme will finance: (a) training and capacity building of SMEs' management and staff for a total amount of approximately MNT 76

- million (while approximately MNT 48 million would be additionally financed by SMEs), and (b) training and capacity building of SMEs' suppliers for a total amount of MNT 63million.
44. The objective for 2015 and 2016 is the provision of support to 15 additional SMEs per year. For the selection of these additional 15 SMEs per year, *the mission recommends the Value Chain Manager to issue a call for proposals (one per year) for the selection of 15 SMEs/cooperatives*. These calls for proposals will be distributed in each PMPMD aimags and soums through the delocalized representations of the MoAI, the delocalized EGF and SMEDF offices and MoL representations, all commercial banks having signed a guarantee agreement with the PMPMD LGF Unit, *soum* and *bag* governors' offices, as well as through *soum* facilitators working for the two NGOs participating in the PMPMD. The call for proposals should be finalized by the end of August 2014, proposals (technical and financial) should be submitted to the PMPMD PMU for a first screening by the end of October 2014 while the final selection of the 15 SMEs by both the MoAI TWG for VCs and commercial banks should be achieved by the end of 2014. The finalization of the support plan to be financed under the PMPMD should be achieved by the PMPMD VC Coordinator by the first quarter of 2015. Commercial bank loans and PMPMD LGF individual guarantees should be extended during the second quarter of 2015 and the provision of training, capacity building and technical assistance should also start during the second quarter of 2015. The main criteria for the selection of SMEs will consist, apart from the project's profitability and capacity to pay back its loan, in the number of incremental poor households (herders, women, producers) that will be included in the supply chain of the SME as well as the investment cost per incremental poor households.
45. **National Value Chains development and strengthening.** The overall assessment of the Value Chain Development sub-component is moderately satisfactory. This activity is planned to start after the MTR. Considering the limited time before project's completion, activities implemented under the national value chain development and strengthening sub-component should focus on strengthening supply chains within these selected value chains to ensure the inclusion of poor households (producers, suppliers, herders). The project should work closely with national organizations regrouping producers, suppliers and/or herders to maximize the impact across the country. The project should also be in line with the GoM priorities in terms of value chain development and more specifically the priorities of the MoIA, the MoED and the MoEGD.
46. Possible national value chains to be analyzed for project support include, non-exhaustive list: (i) dairy products and milk processing, especially production/marketing of Buryat community dairy products that have a distinctive niche market in and outside Mongolia; (ii) camel milk processing into beauty products; (iii) yak wool and milk processing; (iv) organic production of seabuckthorn and other berries; (v) school uniforms to be confectioned, and (vi) hide and skins processing.
47. As mentioned, the support of the project will not gear towards the global strengthening of national value chains, but will mainly focus on the development of their supply chains and the adequate measures to ensure the inclusion of poor households (smallholders, small herders, and women) into these supply chains. In that respect, the main criteria for the selection of value chains will consist of incremental number of poor households included in the supply chain and the possible creation of added value at the level of poor households (primary processing and/or storage activities). Since suppliers of selected value chains are to be found outside of the PMPMD-targeted aimags and soums, the Value Chain Coordinator will work closely with national organizations regrouping all stakeholders of selected value chains to define a roadmap for the strengthening of supply chains, promoting forward contracts among value chain stakeholders, and identify alternative financial instruments more in line with production cycles and financial flows among stakeholders. The roadmap for the development and strengthening of supply chains within national value chains will include the following steps: (i) analysis of each above-mentioned national value chain (review of existing documentation, SWOT analysis), to be completed by October 2014; (ii) selection of up to 3 value chains by the MoIA TWG of VCs

based on a proposal from the PMPMD VC coordinator (to be finalized by the end of December 2014); (iii) together with the national organizations of selected VCs stakeholders, identification of stakeholders (suppliers and enterprises) to be included in the PMPMD activities, fine-tuning of activities, elaboration of a training plan for all stakeholders (finalized by March 2015); (iv) provision of training and technical assistance and extension of financial instruments (loans and guarantees) to be started during the second quarter of 2015, and (v) based on lessons learned, elaboration of a scaling-up roadmap together with the national organizations of selected value chains (to be started in second semester 2016).

48. The MoED has developed the concept of technological park to be implemented in each *soum*. These will rationalize activities in *soum* and *aimag* centers and will provide workplaces for entrepreneurs, identified as a major constraint by PMPMD-supported women's and suppliers' groups. Built under a public-private partnership (public sector providing land and financing non-productive infrastructures while private sector will develop and finance productive infrastructures and equipments), the first technological parks would be delivered by the end of 2014 in two *soums* within the PMPMD-supported *aimags*, among others. It is envisaged that productive investments (processing, storage facilities, and workplaces) would be financed by local entrepreneurs and/or jointly financed by local suppliers and national SMEs or large companies. Such a partnership will increase the collaboration between suppliers and national level processors/buyers, offer primary processing activities at *soum* level (increasing the added value at *soum* level for suppliers), and ensure regular supply for national level enterprises. However, the level of poverty existing in most *soums* (especially PMPMD-selected *soums*) makes the capitalization of these investments by the local population highly questionable, especially with regards to high interest rates on loans extended by commercial banks. These local entrepreneurs/suppliers or entrepreneurs/suppliers' cooperatives should access loans with concessional terms and conditions and the SGF guarantee.
49. However, on a pilot basis, the project could finance the capitalization of these productive investments (equity financing) on behalf of the local suppliers/entrepreneurs. Part of dividends annually distributed to local suppliers/entrepreneurs will allow them to buy the shares held by the PMPMD LGF in each company which asset is composed of a productive investment. Purchase price of PMPMD LGF shares held in local companies would be attractive so as to facilitate a rapid buy-out. *The mission recommends that the PMPMD VC coordinator works closely with the MoED to develop a roadmap for such a pilot investment.* It will include: (i) identification of adequate investments to be considered; (ii) analysis of costs and budget related to such an investment; (iii) drafting financial projections showing RoI and buy-out duration; (iv) drafting an awareness campaign for local population (suppliers/entrepreneurs) at *soum* level; (v) identification of possible national level entrepreneurs and SMEs who could co-finance selected productive investments, if necessary, and (vi) drafting a training plan for local suppliers/entrepreneurs (legal aspects, technical training, business management, company management, marketing, quality control, financial and financing management) and define responsibilities and roles of service providers and of co-investors. The revised allocation of resources for PMPMD activities following the MTR will include a specific envelope for this investment.

Agreed action	Responsibility	Agreed date
To enlarge the MoF TC for the LGF by including one representative from MoED, one representative from bankers' association, one lawyer (preferably from Central Bank Legal Unit)	MoF	July 31 st , 2014
To admit SGF representative as observer of MoF TC	MoF	July 31 st , 2014
To review role and responsibilities of MoF TC and MoF State Secretary	MoF	July 31 st , 2014
To consolidate financial transactions of PMPMD LGF in PMPMD PMU financial statements	PMU	July 31 st , 2014
To convene a meeting with MoF, MoIA, Auditor General and FRC to analyse and identify the most appropriate procedures and signatories for LGF activities	MoF, MoIA, Auditor General, FRC	Immediately
To procure a basic database software and a local service provider to fine-tune the database according to PMPMD LGF activities	PMU & LGF	August 2014
To maintain PMPMD LGF staff at current level	PMU, LGF, MoF	Immediately
To expedite procurement of vehicle allocated to PMPMD LGF Unit and PMU VC Coordinator	PMU & LGF	Immediately
To organize joint field missions between PMPMD LGF Unit staff and PMU VC Coordinator	PMU & LGF	Immediately
To amend contracts to reflect on maximum collaterals to be taken by banks in addition to PMPMD LGF guarantee	LGF	Immediately
To ensure retroactive compliance of guarantee requirements	LGF - Commercial Banks	August 2014
To participate in training sessions organized by banks for their branch level	LGF	September 2014
To have bank staff to participate in training of PMPMD-supported beneficiaries	Banks	Immediately
To award grace period on a case-by-case basis	Banks	Immediately
To assist in the drafting of a MoU between MoF and the FRC for the monitoring, supervision and audit of the PMPMD LGF	LGF, MoF, FRC	August 2014
To suspend issuance of guarantees for SMEs outside project aimags and focus on guarantees for beneficiaries of loans funded by EGF	LGF, MoF & MoL/EGF	Immediately
To expedite the transfer of the second credit line to banks	PMU - LGF	Immediately
To further train women's groups in financial management, bookkeeping, business planning and cash-flow management in collaboration with SGF	UMPSC	September 2014
To further promote transformation of women's groups into cooperatives	UMPSC	Immediately
To estimate resources needed for financing the third batch of women's groups considering: revolving fund, EGF and SDF financing	PMU, LGF & UMPSC	April 2015
To issue call for proposals to identify 15 new SMEs to include in project activities	PMU	August 2014
To update/review value chain analysis for pre-selected value chains	PMU	October 2014
To select up to 3 national value chains	PMU & MoIA TWG on VC	December 2014
To further implement roadmap for national VC development	PMU and MoIA TWG on VC	June 2015
To develop a roadmap for a pilot investment in technological park	PMU & MoED	December 2014

D. Project implementation progress and performance

50. The overall performance of the project management is satisfactory. The PMU is now complete with the recruitment of the Value Chain Coordinator. Performance in the implementation of PMPMD activities has greatly improved since the recruitment of the women's groups, the pasture management and climate change adaptation and the value chain coordinators. The Value Chain Coordinator will also ensure that PHGs' members supported under the pasture management and climate change adaptation component are effectively integrated in value chains development activities either for the livestock activities of additional activities promoted under the project.
51. As previously mentioned, the PMPMD LGF Unit is an integral part of the PMPMD PMU although located in different offices. This integration should be fully reflected in the financial statements of the PMPMD PMU.
52. **Extension of the Project completion and Loan/Grant closing dates.** Due to the delay in the recruitment of the PMU Value Chain Coordinator, impact of PMPMD activities related to value chain strengthening will be barely noticeable at project completion (September 2016). In addition, the transformation of women's, suppliers and herders' groups into cooperatives may require more monitoring and follow-up to ensure successful transformation and compliance with national and international standards in terms of management, finance and accounting. Considering the above and subject to adequate availability of funds, the mission recommends the GoM to officially request the extension of the project completion and Loan/Grant closing dates by one year to IFAD to allow more time to implement value chain sub-component activities and to monitor the transformation of groups into cooperatives as per GoM's policy. An alternative solution for the use of funds without any time extension of the project would consist in the GoM requesting expending the project benefits in all *soums* on the PMPMD-selected *aimags*. *Aimags* governors have already expressed their interest in having the benefits of the project across the whole *aimags* and not only in PMPMD-selected *soums*. In light of the proposed reallocation of funds, the GoM will further analyze the two proposals that are not mutually excluding each other, and will submit a documented request before the next supervision mission.
53. **Monitoring and Evaluation.** Since 2012, the PMU has taken important steps in executing M&E activities, and the overall assessment of M&E is moderately satisfactory. 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 MoIA Monitoring, Evaluation and Internal Audit Unit (NGOs local facilitators should be further trained by the project in that respect). 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. In March/April 2014, the PMU with the assistance of IFAD has also conducted an Annual Outcome Survey and its results have been disseminated to all PMPMD partners. The PMPMD Steering Committee receives regular progress updates that enable it to make informed decisions about project direction when it meets. Meetings for the MoF Technical Working Group for LGF and for the MoIA Technical Working Groups for Pasture Management and for Value Chains have been convened and have provided appropriate guidance to PMU and LGF staff. As these elements fall into place and the system is further developed, the system will be able to address the information needs of key stakeholders that contribute to the achievement of the project goal and objective.
54. As a follow-up of the MTR mission and recommendations, the logframe of the project and its objectives, outputs and outcomes will be revised accordingly.
55. **Gender focus.** The overall assessment of gender focus is satisfactory. The Market Development component has a strong focus on gender: under the micro-enterprise development, groups are formed with a majority of women in membership and in managerial position (260 groups formed in 2012 and 2013 with a total membership of 2,040 members of

whom 1,592 are women (78%) of whom 312 women-headed households. More than 80% of groups have women in groups' key managerial position). Training has been provided to 2,300 individuals by the UMPSCD of whom 82.8% are women. In other activities related to the Market Development component, the project will ensure together with selected SMEs and stakeholders organizations in selected value chains the inclusion of women as beneficiaries of all activities (financing and training), to the extent possible.

56. **Poverty focus.** The overall assessment of poverty focus is moderately satisfactory. Each women's group is mainly composed of a majority of poor and very poor women/households and very few better-off women. The latter are essential in order to provide guarantees and collateral requested by commercial banks in complement to the PMPMD LGF guarantee, therefore securing access to loans for poor and very poor women. Training activities are also inclusive of poor women. With regards to SMEs and value chains development, the selection of beneficiaries includes criteria on poverty level of suppliers for selected SMEs and value chains. The current approach to pasture herders' groups' formation and organization based on pasture boundaries promotes inclusiveness and poor herders' households are reportedly to be included in PMPMD-supported PHGs. Amongst PHGs, the average percentage of HHs who have less than 200 livestock (sheep equivalent), considered as poor, was approximately 34% in 2012. The poverty ratio varies greatly by each soum or PHG - as low as 4% and as high at 78% in PHG. On average, 7 out of 15 soums have more than 30% of poor PHG members. The mission visited one soum in Khuvsgul aimag (Tsetserleg soum) where the poverty rate of PHGs is highest (61% of PHG's members are poor) and observed the difficulties those poor herder families face. The mission recommends the PMU to guide PHGs to consider using the PHGRF to finance poor herders' restocking.
57. **Effectiveness of targeting approach.** The assessment of the effectiveness of the targeting approach is satisfactory. A pre-MTR workshop was organized on May 29th and 30th, 2014 to review the implementation of Phase 1 of the PMPMD and to discuss on possible adjustments in the design and implementation of activities planned during Phase 2. The workshop focused on: (i) pasture management with pasture herders' groups and cooperatives as key institutions and, (ii) microfinance with women's groups and cooperatives as key institutions. Participation of representatives from MoIA, *soums* and *aimags* governments also enable participants and project representatives to further understand GoM agenda, policies and perspectives related to these key issues. Participants concluded the two-day workshop assessing the targeting approach used under the PMPMD as adequate and effective. With regards to pasture management, the approach developed by the project is all inclusive: pasture management plans are to be jointly developed and agreed upon by all pasture herders' groups (PHGs) whether supported by the PMPMD or not and by the local government. So far the poverty incidence within PMPMD-supported PHGs and the average poverty incidence in PMPMD-selected *aimags* are quite similar indicating an effective approach to reach poor herders' households in each PMPMD *soum/aimag*. Elite capture has been avoided to the extent possible for investments provided by the project to herders' groups through the implementation of investment guidelines and revolving fund guidelines. To maximize the PMPMD targeting approach, *the mission recommends to further including soums and aimags governments in the training and capacity building activities extended by the PMPMD, service providers, and/or partners under both pasture management and climate change adaptation, and market development components.*
58. **Knowledge management.** The overall assessment of knowledge management is satisfactory. During its field visits, the mission has participated in two knowledge sharing workshops organized by the UMPSC in Bulganaimag (for Khentii, Huvsgul and Bulgan women's groups) and in Arkhangay aimag (for Gobi-Altai and Arkhangay women's groups). Representatives of approximately 100 women's groups have attended these two workshops during which all issues related to training, access to finance, access to guarantee, linkages with market have been addressed. Participants were satisfied by activities implemented under the project and the mission briefed them on the latest development with regards to access to financial resources

and guarantees. *Soums* and *aimags* government representatives also addressed the hindering issue of absence of proper workplace. *The mission recommends the annual holding of such workshops.* As far as the Law of Mongolia on Credit Guarantee Fund is concerned, *the mission recommends the organization of annual workshops between the SGF, the PMPMD LGF, the FRC, the MoF, interested ministries (MoIA, MoL, MoED, MoEGD) and development projects/programmes to share experiences and present them to policy makers for possible adaptation and changes.* The above-mentioned pre-MTR workshop was also organized as a knowledge sharing event during which experiences and lessons learned were discussed among representatives of PMPMD-supported PHGs and presented to local governments. The implementation mechanism of newly adopted investments and revolving fund guidelines was also thoroughly explained by project representatives, ensuring successful ownership by PHGs. Finally, an IFAD-funded mission visited Mongolia in April 2014 to assist PMPMD in its Annual Outcome Survey. In general, the survey revealed that most beneficiaries are satisfied with project interventions. Major achievements include: better understanding of pasture management and planning issues, improved livelihoods and food security, and better access to financial services than non-beneficiaries.

59. **Partnerships.** The overall assessment of the partnership is moderately satisfactory. An evaluation was carried out in first quarter of 2014 by the monitoring, evaluation and internal audit department of the MoIA on the activities implemented during 2013 by the then-contracted service providers: UMPSC for microenterprises development sub-component (period covering 2013) and the Mongolian Society for Range Management (MSRM) for the pasture management and climate change adaptation component (period covering January to July 2013). The performance of AGROM, new service provider selected for the implementation of the activities related to the pasture management and climate change adaptation component from August 2013 has not been assessed by the MoIA internal audit department. For the period January to July 2013, the MSRM assessment was moderately satisfactory while the UMPSC assessment was satisfactory. For the period August to December 2013, the UMPSC assessment was extremely satisfactory.
60. Partnerships with governmental funds (EGF and SMEDF) have proven to be extremely difficult especially with the EGF since terms and conditions of loans extended by banks from its resources are slightly different than those for loans extended from the PMPMD credit line proceeds. Inflexibility in eligibility conditions led to the PMPMD to finance its supported women's groups through a specific credit/refinancing lines extended to participating banks. SMEs and suppliers' cooperatives should not have problems to access either the SMEDF or the JICE Two-Step loan resources.
61. Despite a slow implementation, guarantee contracts and agreements have been signed with six commercial banks, with two having already been implemented (State Bank and Capital bank for women's groups being financed in 2013). The partnership with the SGF in terms of provision of training and capacity building to staff of banks' local branches as well as a clear delineation of target beneficiaries between the PMPMD LGF and SGF will also increase the partnership, materialized by a Memorandum of Understanding to be signed by both parties before the end of July 2014.

Agreed action	Responsibility	Agreed date
To request an extension of the project completion and project Loan/Grant closing dates to allow more time to implement value chain activities and to monitor transformation of groups into cooperatives	MoF - MoIA	September 2014
To further include soums and aimags governments in training and capacity building activities related to both PMPMD components	PMU, UMPSC & AGROM	On-going
To organize annual knowledge sharing workshops for women's groups	PMU & UMPSC	June 2015
To organize annual workshops for Credit Guarantee Funds	PMU, LGF, SGF & FRC	December 2014

E. Fiduciary aspects

62. **Financial management.** The overall assessment of financial management is moderately satisfactory. In general, the project financial management is in line with the financing agreement. PMU's financial activities, accounting and reporting are mostly in line with international and national accounting standards. The mission also noted that the asset register is kept in good order. A verification count of all equipment recorded in the fixed asset register is performed once a year. Monthly fuel consumption log was maintained properly. After randomly identification, it was found that the data in the PMU accounting system were reliable. The Mission noted that all agreed actions in 2013 supervision mission have been implemented by the Project.
63. Although above improvements have been made, the mission identified errors in account recording. The cash balance in the amount of USD0.9 million was converted and transferred to the LGF Guarantee Project account in accordance to the Letter to Borrower (LTB). However this balance has been recorded as project expenditures rather than as project current assets prior to the guarantee fund committed to cover the risk of credits as intended. The PMPMU explained that the LGF Project Account was owned by Ministry of Finance and that the Director of PMU and the Accountant were not authorized signatories of this account, thus it was not part of PMU's assets.
64. After intensive discussion with the Project including the PMPMD LGF Unit Manager, the mission noticed that the reporting line was not clear to all. Thus, the mission clarified that according to the Financing Agreement between IFAD and GoM, the PMU is responsible for overall management, coordination, oversight, monitoring, supervision, knowledge management and evaluation. LGF is a sub-unit of the PMU. Consequently, consolidated financial statements should be prepared and audited annually. The mission recommends that adjustment entries should be made to ensure the amount is recorded under current assets (cash in LGF Account).
65. Given the risk in the utilization of the PMPMD LGF resources, the mission recommends: (i) PMU and LGF record expenditures when funds have been committed to cover the risk (maximum liability) as intended. The LGF shall submit quarterly reports to the PMU accompanying its financial statements and analysis of its performance as specified in the LGF manual of procedures; (ii) to ensure proper appropriation of committed funds, a meeting should be convened between MoF, MoIA, the Auditor General and FRC to determine the most appropriate procedures and related signatures for the approval of guarantee contracts, pay-outs and operating expenses of the PMPMD LGF Unit, and (iii) to update correlatively the PIM for the operation of the guarantees and credit line facilities.
66. Auditors raised concerns about many project accounts in local currency. For example, the credit line has a separate bank account in commercial bank. The Project accountant has to transfer the funds from DA through PMPMD LGF credit line project account to participating banks. The mission agreed that there were inefficient funds flow for the credit line account and *recommends a direct transfer to the partner's banks from DA upon meeting the disbursement conditions.*

67. Interest income in the amount of USD 38,239.35 under the DA and USD 24,096.06 under the guarantee and credit line accounts has been accumulated. The mission reminds the project that withholding funds to invest for the purpose of earning interest is not in accordance with the concessional nature of IFAD financing. *The mission recommends that the interest income of PMPMD LGF financial resources investment be used for the operations of the project and the balance for up scaling guarantee facilities.*
68. **Disbursement.** The performance of project disbursement is satisfactory. The project became effective on 26 August 2011 and is scheduled for completion on 31 March 2017. To date, about half the implementation period has elapsed. As of 31 May 2014, the cumulative disbursement value for the loan was SDR 2,752,455 (equivalent to about USD 4,226,626), including the advance payments in the designated account, which accounts for 41 % (only 19% for the actual implementation) of the total amount of the loan at SDR 7.25 million (equivalent to about USD 11.5 million). The cumulative disbursement value for the GEF grant was USD 620 651.17, including the advance payment in the grant Designated Account, which accounts for 41% (28% for the actual implementation) of the total amount of the grant at USD 1.5 million. Activities in the AWPB have not been all implemented. There is still a certain gap between the actual implementation and the plan mostly due to the seasonality and weather-dependency of most activities to be implemented.
69. Disbursements for the credit line have been made to PMPMD-supported women's groups in the amount of USD 0.5 million. Upon the LGF's request, further disbursements can be made from Designated Account to the partner banks directly. *The mission recommends that the PMU accountant shall design a template form for written Payment Request (PR) for withdrawal credit line funding from the DA to partner banks.* The form shall specify clearly the signature required, banking instruction and a list of supporting document needed such as no objection from IFAD if the procurement is above the pre review threshold, or/and contracts between LGS and partner's banks. The PMPMD LGF is required to deliver a PR to PMU containing such supporting documents and other evidence as may be reasonably requested by project accountant to allow payment to be made to partner banks.
70. Preparation works for the PMPMD loan guarantee facility have been completed and activities have started with the provision of guarantees for PMPMD-supported women's groups formed and trained in 2012 and financed by commercial banks in 2013. However, the mission noticed that proper accounting software is not in place for LGF operations and recommends that proper credit management software (database fine-tuned by an IT specialist for adaptation to the specific LGF requirements with regards to its activities) is used for bookkeeping of LGF guarantee and credit line lending. Auditors expressed their concern on the collateral requested by participating banks when lending to PMPMD-supported women's groups. Some of beneficiaries have issued 100-130% collateral to the bank, in addition to the PMPMD LGF guarantee. The mission noted that the concept of a credit guarantee mechanism was still new to many banks, in particular at branches level, and additional trainings should be arranged to build their capacity. The mission advises that accounting entries for the appropriation of PMPMD LGF guarantees extended be recorded on the basis of the maximum liability borne by the PMPMD LGF.
71. **Counterpart funds.** The overall assessment of counterpart funds is satisfactory. In accordance with the Financing Agreement, the project shall exempt all duties and taxes associated with the project. Improvement has been made on the government contribution. As of today, a total of MNT 63.3 million VAT was exempted from the expenditures of project. The beneficiaries, companies and institutions' contributions were not assessed and recognized. The mission advised the PMU that beneficiaries, companies and institutions' contributions made to the project should be properly assessed and recognized according to the national regulatory framework.
72. **Compliance with loan covenants.** The overall assessment of compliance with loan covenants is satisfactory. The financing covenants are mostly complied.

73. **Procurement.** The overall assessment of procurement is moderately satisfactory. The approved 2014 procurement plan if compared against actual progress establishes approximately 31% of the total budgeted procurement has been undertaken on a timely basis while 69% of the total budgeted procurement were in various stages of actions within the procurement cycle. 2014 procurement activities undertaken by the PMU are in accordance with established provisions of the Mongolian Procurement Law apart from cases developed below and are largely consistent with IFAD Procurement Guidelines. Cases requiring adequate actions by the PMU include:

- (i) **Procurement of Vehicle for the PMPMD LGF Unit and Value Chain Coordinator.** The procurement of a single unit of vehicle has been considerably delayed for over one year due to non responsive bids. In 2014, procurement of the vehicle through a direct contract was approved by IFAD in the procurement plan limiting the budget to MNT 125 million. Initial quotation being above MNT 125 million, and after discussions, a second offer was made for MNT 122.5 million (vehicle with lower specifications: V6 engine instead of V8, petrol instead of diesel). *The mission recommends the PMU to submit a request to IFAD to proceed with the procurement of vehicle from Munkhkhada LLC based on the revised specification for MNT 122.5 million.* This would also reduce the vehicle rental cost incurred so far due to the non-availability of the vehicle.
- (ii) **Budget revision in the AWPB and Procurement Plan for the construction/rehabilitation of wells, hay fencing and fodder storage units.** Construction/rehabilitation of wells along with hay fencing and fodder storage unit has been significantly delayed as a result of non-participation of bidders due to the low budget estimated for such investments. The mission agreed with the revision of estimated budgets based on the current MoIA approved average price estimates and recommends the submission of a revised 2014 AWPB and PP to ensure participation of bidders without compromising quality of the construction/rehabilitation of wells, hay fencing and fodder storage units.

A review of the bid evaluation reports for decentralized procurement of new wells for Bulgan, Gobi Altai, Khentii and Khuvsgul aimags identify a lack of information and transparency in the bid evaluation reports. In that respect, *the mission recommends the PMU Procurement Officer to review the compliance of bid evaluation and comparison process with established rules and procedures, strictly adhering to the evaluation criteria and selection method set out in the invitation for tender or bid document. The mission recommends that the PMU Procurement Officer submits a report of that analysis to IFAD according to the template detailed in MTR mission report.* The PMU also requested the mission to consider the decentralization of procurement of wells, hay fencing and fodder storage units through the aimag Governor's Office. The mission agrees with request subject to the PMU undertaking an analysis of each evaluation of bid and a proper filing of all relevant documentation for audit and supervision missions review. The mission reminds the PMU that the construction of three wells, hay fencing and fodder storage units through the aimag Governor's Office should be undertaken in accordance with approved construction designs and other required regulations.

- (iii) The PMU requested the mission to review a case of non-performance by a contractor to construct 6 units of wells in Gobi Altai aimag. The contractor only managed to deliver 3 units of wells. The PMU established a working group to assess the contract performance in 2014 and agreed on a settlement with the contractor deducting MNT 2.5 million from the contract final payment. Despite the settlement of the issue, the MoIA requested the PMU to blacklist the contractor. The mission reminds that the blacklisting of a contractor cannot be legally implemented by the PMU and should naturally proceed in accordance with the provision of the procurement law through the MoF. However given that a settlement has been reached and the contractor duly penalized with a deduction of MNT 2.5 million, *the mission recommends that the matter is treated as closed without engaging in any legal challenges in pursuit of the contractor's blacklisting. The mission also recommends the PMU to establish and maintain a*

performance security control log to adequately monitor contract performance ensuring the performance securities are adequately updated when contracts are delayed or extended.

- (iv) **Meteorological weather stations.** Three units of ecological data gathering stations have been supplied based on the 2013 contract with NAMEM for MNT 68,024,406 but these equipments have not been installed in Gobi Altai *Aimag*. In accordance with the provision of the contract NAMEM has failed to comply with its agreed contractual term and conditions due to an overall budgetary reduction of NAMEM own resources. NAMEM was to cover the cost of the transportation and the installation of the equipment but has now requested the PMU to provide it with additional resources to cover the cost of transportation and installation of the equipment (transport cost, per diem etc for staff). The total additional budget requested by NAMEM is MNT 1.3 million and could be covered from the overall cost saving under the contract amounting to MNT 4.8 million. The mission agreed that the proposed cost could be covered within the current contract price with NAMEM subject to a revision of the term and conditions of the contract.
74. During discussions held with the Government Procurement Agency of Mongolia, the mission was informed that the GoM is currently working on another revision to the Mongolian Procurement Law to introduce further amendments to that adopted late 2012. The GoM plans to implement an e-Procurement (e-Shopping, e-Bidding) system and further develops a national training system based on online training program; short term training program for private sector; university degree program on Procurement and by providing support for training institutions.
75. Finally, the mission also values the commitment of the Director General of the Government Procurement Agency of Mongolia during the mission to support, advice and act as a knowledge centre. The PMU Procurement Officer is encouraged to periodically contact the Agency to access its valuable knowledge resources. The mission also supports the participation of the PMU Procurement Officer in any external procurement training organised by IFAD which would positively contribute towards the officer's professional development.
76. **Audit.** Quality and timeliness of audits is moderately satisfactory. The audit report for the fiscal year of 2013 was submitted to IFAD within the time period specified in the Financing Agreement. The Supreme Audit Office conducted the audit by using ISA and Government Auditing Standards of the Government. The Auditors expressed an unqualified opinion on the financial statements, SOE and Designated Account. Following last year SIS recommendation on Audit report translation, the audit report this year has been translated by the Audit Office. There were several internal control issues identified and recommendations for improvement were made by the auditors.
77. According to the IFAD General Conditions, the Borrower/Recipient shall submit to the Fund the reply including action plans to the management letter (recommendations) of the auditors within one month of its receipt. The mission urged the PMPMD PMU to coordinate agreed action plans and feedbacks to the auditor recommendation. The mission noted that auditors were unable to interview LGF manager.

Agreed action	Responsibility	Agreed date
To update and submit revised AWP&B and Procurement Plan	PMU & MoIA	July 31 st , 2014
To submit a request to IFAD to proceed with the procurement of one vehicle based on revised specification for MNT 122.5 million	PMU & MoIA	July 31 st , 2014
To report on bids for procurement of new wells to Bulgan, Gobi Altai, Khentii, and Khuvsgul <i>aimags</i>	PMU	July 31 st , 2014
To establish and maintain performance security control log to monitor contracts performance	PMU	July 31 st , 2014
To further train Procurement Officer	PMU/GPA	On-going
To adjust entries for the guarantee facility in the amount of USD 0.9 million (amount recorded under current assets)	PMU	July 15 th , 2014
To ensure that interest income from investment of LGF resources are properly used to cover LGF operating expenses, to pay-out claims with the balance being capitalized as LGF additional resources	LGF & MoF	Immediately
To update PIM for LGF operations on guarantees and credit lines	LGF	August 15 th , 2014
To design a template form for written Payment Request for withdrawal credit line funding from the DA to participating banks	PMU	July 10 th , 2014
To assess, evaluate and record contributions from beneficiaries, companies and institutions in accordance with the National Regulatory Framework	PMU	September 2014
To submit to the Fund the reply including action plans to the Management Letter (recommendations) from Auditors within one month of its receipt	PMU	July 31 st , 2014

F. Sustainability

78. **Institutional sustainability.** The overall assessment of the institutional sustainability is moderately satisfactory. In line with the GoM policy, groups formed under the project are to receive specific training on cooperatives development and management and the project will assist them in their gradual and voluntary transformation from groups to cooperatives. This transformation entails several benefits, among others: access to financial services from commercial banks, separation between personal and activity-related assets, protection in case of bankruptcy, legal protection under the Law on Cooperatives. These benefits will contribute to a sustainable institutionalization of PMPMD-supported groups and cooperatives. PMPMD-contracted service providers should further build capacity of representatives from *bags*, *soums* and *aimags* governments enabling them to take a more proactive role in project activities design and delivery.
79. **Social sustainability (Empowerment).** The overall assessment of empowerment is satisfactory. 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 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 land use and possession rights will be an important step to promote empowerment of livestock herders and their institutions, to encourage investment into natural resource management, to make resource management decisions, and to 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 a supportive environment for social sustainability in the context of project results. During knowledge-sharing workshops for women's groups, empowerment of PMPMD-supported women was noticeable through open discussions with local governments and bankers.

80. **Economic and financial sustainability.** Economic and financial sustainability of herders' suppliers and women's institutions implemented under the project will be greatly enhanced by the transformation of groups into cooperatives. In particular, herders' groups will have the possibility to combine non-income generating activities (pasture management) and income generating ones (production and sale of livestock and other products). In addition, this transformation will facilitate regular access to financial services enabling these institutions to start and further develop income generating activities. Finally, the implementation of guidelines for investments provided to herders and guidelines for the implementation and use of revolving funds also constitutes an important step towards economical and financial sustainability of these institutions.
81. With regards to the PMPMD LGF Unit, its financial sustainability should result from the investments of its resources in secured financial instruments. Interest flow generated by these investments should be sufficient to cover any pay-out and PMPMD LGF Unit operating costs while the balance of interests shall be capitalized as additional PMPMD LGF resources.
82. **Technical sustainability.** The transfer of investments ownership promoted by the project as well as their shared usage for the benefit of each group member constitutes key elements to ensure technical sustainability. Promotion by the project of a specific mechanism funded by the community incentivizes maintenance and care for technical investments. Moreover, the group needs assessment in terms of investments is conducive to improvement of ownership of investments by recipients.
83. **Environmental sustainability.** Joint management of pastures was improved and attitude of herders and local authorities to collective pasture management has been changed in project target aimags. The interviews and observations in general confirmed that improvement of pastureland is seen in all target *soums* due to project interventions such as establishing herder groups, executing PMPs, trainings and investments. Group work and PMPs encouraged herders to manage the pastureland collectively in appropriate manner, well construction increased access to unused pastures and animal water points, trainings improved herders' knowledge on better pasture management. The pasture condition improvement and water availability are not yet monitored at *bag* level and the mission made recommendations under the Pasture Management and Climate Change Adaptation component to engage participatory monitoring system and seek innovative research institute who provides precise calculation of pasture rotation also in consideration of water availability.
84. **Exit strategy.** The project compliance with the GoM policy consisting in the transformation of women's, suppliers, and herders' groups into cooperatives constitutes the exit strategy for the project. Additional training and advisory services shall be provided by the project and the PMPMD-selected NGOs (UMPSC and AGROM) to group members in order to further build up their capacity and to assist them with the transformation process. Furthermore, the inclusion of cooperatives into strengthened supply chains will also pave the way for their long-term institutional and financial sustainability. The exit strategy embedded in the PDR for PMPMD-supported PHGs consists in the consolidation of their pasture management plans into a *soum*-wide pasture land management plan including all PHGs as a routine procedure, jointly monitored with the local government. To maximize plans sustainability and enforcement, all herders of a given *soum* should participate in training.
85. The exit strategy for the PMPMD LGF Unit and mechanism has been defined in last year's supervision mission report. It consists in the merging of the PMPM LGF Unit with the SGF at project's completion and the endorsement of existing PMPMD LGF-issued guarantees by the SGF to ensure continuum in the guarantee. The current PMPMD LGF Unit would become a SGF department specialized in guaranteeing loans extended for rural activities and to poor households. Experience gained by the PMPMD LGF Unit staff will be key for this merger and development of the department at SGF level. In addition, the absence of competition between the two entities on the SMEs guarantee sector and the focus of the PMPMD on loans extended by commercial with resources from the EGF will facilitate the merger. To amplify the

collaboration between the PMPMD LGF and the SGF, with a view to facilitating the merger, *the mission recommends further collaboration with regards to: (i) training of banks' staff at local level, and (ii) training of entrepreneurs.* In addition to the financial training, *the mission also recommends that the SGF and the PMPMD Value Chain Coordinator jointly develop a training need assessment and training modules inclusive of marketing, legal aspects, business management, accounting and cash-flow management.*

Agreed action	Responsibility	Agreed date
To amplify collaboration between PMPMD LGF and SGF in terms of training to stakeholders	LGF & SGF	September 2014
To develop training need assessment and modules for entrepreneurs (PMPMD LGF and SGF)	LGF & SGF	October 2014

G. Impact

86. Impact of activities implemented under the PMPMD has been assessed in March/April 2014 in the Annual Outcome Survey (AOS), the report of which will be annexed to the MTR mission report. The AOS focused on the assessment of impact changes that occurred at household level with regards to livelihoods, food security and animal husbandry since project implementation. The impact detailed below have generally been confirmed during visits and interviews made by the MTR mission during its field visits. Some of the most significant impacts are listed below:
- **Food security.** Since project implementation, PMPMD-supported beneficiaries have experienced a reduction in the duration of their food insecurity compared to non-project beneficiaries (average period of food insecurity is less than a week for 47% of project beneficiaries and up to 5 weeks for non-project beneficiaries). Food security is considered to have improved for 63% of project beneficiaries while food security has remained unchanged for 70% of non-project beneficiaries. Increased livestock productivity and additional income deriving from alternative activities resulting from PMPMD support are the main two factors explaining the change in food security;
 - **Savings.** As a result from access to financial services, additional income and increased livestock productivity, 38% of project beneficiaries have experienced a significant improvement in their savings (against 12% for non-project beneficiaries);
 - **Income.** For the first batch of women's groups that have received a micro-loan to start/develop their income generating activity, it was generally assessed that income has been substantially increased (despite the absence of a grace period) and that the women's direct contribution to the household's expenses is now significantly higher. However, the mission acknowledges that the elapsed time since the extension of the loan is too short to consider this improvement in income as well as in savings (see above) as a permanent one. 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;
 - **Climate change adaptation.** Provision of tractors and training in hay and fodder making and storage have reportedly had significant impact on PMPMD-supported PHGs' members. In several soums, it was reported that hay yielded 3 times more than previous years when tractors were not available.

H. Recommendations and Implementation Plan for the Remaining Project Period

87. After a first phase which was mainly dedicated to physical investments for newly created pasture herders' groups and to the capacity building of women's groups and their linkage with a participating commercial bank for the financing of their income generating activities, the main thrust behind the second phase of the project will consist in:

- a. Development and strengthening of local micro and small enterprises and their linkage with poor households (herders, producers);
 - b. Inclusion of poor households (herders, producers) in supply chain within selected national value chains;
 - c. Development of pre-processing activities at level of bag in order for producers and herders to benefit from a larger share of the final added value;
 - d. Additional training of all stakeholders (entrepreneurs, herders', suppliers' and women's groups, bank staff, NGO staff local government staff);
 - e. Integration of all herders/herders' groups in a given soum within capacity building and training activities;
 - f. Focus on poverty by providing access to the PMPMD LGF guarantee scheme to all beneficiaries of loans extended by commercial banks and micro-finance institutions from resources provided by the Employment Generation Fund.
88. Training will be provided to all women's groups and herders' groups supported under the project (120 PHGs and 410 women's groups). The provision of guarantee for EGF-funded bank loans will be implemented before the end of 2014 (amendment of SLAs already signed by Capital Bank and State Bank). Development and strengthening of local micro and small enterprises will continue in 2015 and 2016 (additional 30 MSEs to be supported under the project) while the development and strengthening of supply chains within selected value chains will only commence in 2015. Late recruitment of the PMPMD Value Chain Coordinator hampered the implementation of that activity.
89. Implementation of local micro and small enterprises and strengthening of supply chains will be carried out jointly with the Ministry of Industry and Agriculture for the selection of value chains and with the Ministry of Economic Development for its Technological Parks, this latter as a pilot sub-project under the PMPMD.

I. Assessment of Lessons and Experience Learned from Project Implementation

90. Several lessons and experience can be assessed from the first phase of the project. The most important ones concern:
- **Women's groups.** With 100% repayment rate for loans extended by commercial banks, women's groups formed and supported under the project have proven to be extremely committed. This repayment rate has also positively impacted participating commercial banks that are now regarding PMPMD-supported women's groups as potential good clients. However, banks still consider that a large number of loan applications and business plans are weak, although bankable, and that most entrepreneurs need further training and capacity building with regards to business and financial management;
 - **Guarantee facility.** Guarantee facility is a new concept in Mongolia. Although PMPMD LGF Unit staff has discussed and negotiated guarantee contracts and agreements with participating commercial banks headquarters (seven commercial banks are participating in the PMPMD LGF guarantee scheme), it appears that information has not been forwarded to branch managers at local level, thus the request from local branch managers for guarantees and collaterals the value of which should be over 100% of the loan amount, in contradiction with the guarantee agreement. In most cases, local branch managers don't understand the value of the guarantee contract and prefer requesting hard collaterals and guarantees such as land, house, and equipments. To familiarize local branch managers to the PMPMD LGF guarantee scheme (but also to the SGF guarantee scheme), it is of paramount importance to participate in the training session provided internally by each bank to its staff through a specific window of training dedicated to guarantee schemes;

- **Stakeholders training.** Following the preceding remark, there is an asymmetrical knowledge of the financial products that can be accessed under the PMPMD. Women's groups are well aware of the type of financial products they can obtain from commercial banks (and from the PMPMD LGF) while banks, and especially local branch managers, are not fully aware of them. On another hand, women's groups' loan applications and business plans do not always meet the minimum requirements set by banks. Finally, some women's groups have not yet developed the necessary skills to have up-to-standards financial statements on their activities. Assessment of current situation demonstrates that additional training and capacity building for all stakeholders is required: women's groups as well as suppliers' groups and PHGs that will also access to financial services (also because of the GoM policy to upgrade groups into cooperatives that require more formal financial statements vis-à-vis the local administration and/or to access loans from banks), local branch staff, micro-, small and medium entrepreneurs, and PMPMD LGF Unit staff;
- **Grace period.** Grace period is to be decided by the commercial bank on the basis of the cash-flow generated by the activity/institution financed and its capacity to meet its financial commitment. The grace period is not automatic and should only be extended to activities that require some time to reach full production/activity capacity. A 100% repayment rate without any grace period indicates that, in most cases, a grace period was effectively not necessary (most of women's groups' activities have a very short cycle of production and sales). Grace period should also be included in the training provided to women's groups;
- **Women's groups Revolving Fund.** Even though women's groups can access micro and small loans from participating commercial banks, some of their needs cannot be financed by banks (social needs mainly). The creation of a Revolving Fund within each women's group not only increases the cohesion of the group but also increases its financial capacity and possibility to finance some immediate needs (through regular weekly payments). Such Revolving Fund should also be considered by participating commercial bank as one of the possible collateral women's groups could put against their loan. A rapid survey among some women's groups indicate that social loans extended from the revolving Fund have a 100% repayment rate;
- **Workplaces.** Three main constraints prevent women's groups to successfully implement an income generating activity: (i) access to finance; (ii) access to market, and (iii) access to a workplace. The PMPMD has focused its activities on the first two aspects: access to finance through the implementation of a credit line and a guarantee facility and access to market through technical and marketing training and advisory services. In most cases, women are still working at home without any distinction between their private assets and those related to their activity. A proper workplace outside of the house is highly recommended as it will positively impact on the quality of the production. Commendable efforts have been made by many soum and aimag governors to provide workplaces to women's groups and other non-PMPMD-supported entrepreneurs (rehabilitation of local government building). The concept developed by the Ministry of Economic development (Technological Park) also aims at providing some producers with decent workplaces. This shows the importance of the collaboration between the project and the local administration for the benefit of women's groups and other entrepreneurs;
- **Consolidated pasture land management plan.** Pasture land management plans are consolidated at bag and then at soum level. With only a few pasture herders' groups being supported under the project, it appears that collective decision at bag and soum level are hard to be taken and even harder to be enforced due to the opposition of not project-supported herders. It is therefore important for the sustainability of PMPMD activities that training and capacity building include all herders in a given bag and soum, or at least representatives of all herders' groups in a given bag/soum. It is also of paramount importance to include representatives of the local administration who will be able to further implement such plans once the project is completed;
- **Investments need assessment.** A detailed and thorough PHGs' need assessment has to be carried out prior to any investment by the project. Needs differ from one bag, soum and aimag

to another one. During the first phase of the project, the relation between investments made by the project and effective needs from project-supported PHGs was unclear. To avoid investments being unused as not meeting PHGs' needs (such as in the case of sprinklers), the project's investment policy has to result from a detailed need assessment and equipments procured accordingly. Such a mechanism will also ensure investments' ownership by PHGs and that consequently PHGs will properly implement a maintenance policy and financial mechanism;

- **PHGs investments vs. soum-level investments.** Some investments should be planned and implemented at soum level and not only at PHGs' level (such as fenced spring and wells). Location of such investment could be decided by all herders in a given soum with the responsibility for its maintenance provided to PMPMD-supported PHGs that will receive specific training for that purpose. Impact would be more important and adherence to pasture land management plans could then be facilitated.
- **Cooperatives.** Cooperatives are promoted by the GoM. Only a few PMPMD-supported PHGs and women's groups have been transformed into cooperatives despite the advantages that this legal structure can provide to cooperatives and their members (access to finance from commercial banks, protection by a well-defined Law, and division of assets). Further training and advisory services are necessary to groups' members to decide on the transformation of their group into a cooperative. This should be done on a voluntary basis. Two options need to be assessed: (i) one group transforms into one cooperative or a few groups transform into one cooperative, or (ii) groups remain and are becoming members of a cooperative, or (iii) group members are individually becoming members of a cooperative.

J. Revised Project Costs and Financing

91. The following tables show the new allocation of project costs per category as a consequence of the MTR mission's recommendations. Two scenario have been envisaged: without and with a one-year extension of the project. In the scenario without the one-year project extension, main changes in the allocation of project costs include:

- **Guarantees.** The mandate of the PMPMD LGF guarantee scheme has been adapted to more clearly focus on poverty and poor households enable to access financial resources from the formal financial sector. In that respect, the guarantee extended to banks by the PMPMD LGF will focus on all loans extended in all aimags by participating banks from resources extended by the Employment Generation Fund. The PMPMD LGF will also no longer issue guarantees for SMEs operating outside of the PMPMD-targeted five aimags except for those included in selected value chains.

A specific amount was indicated in the 2014 AWP&B for the guarantee line (increased capitalization of the PMPMD LGF). The mission has considered that this amount should not be transferred as such as it was based on no sufficient estimation of PMPMD LGF risk exposure. Consequently, the mission has estimated the amount of additional resources to be transferred to the PMPMD LGF (capitalization) to meet the prudential risk coverage ratio on participating banks' loan portfolio. The amount budgeted in the 2014 AWP&B was USD 0.79 million (to be cancelled) while the amount to be transferred is equal to USD 0.9 million on top of the balance of funds available on the budget line i.e. USD 0.14 million. After reallocation, resources allocated to PMPMD LGF guarantee fund should amount to USD 1.93 million for a leverage of 8 (PMPMD LGF risk coverage against the participating bank's loan portfolio).

- **Credit line.** The extension of the guarantee coverage to all loans extended by participating banks from the Employment Generation Fund resources has paved the way for a change in the EGF's approach and procedures so as make PMPMD-supported women's groups eligible. However, since changes may take some time to be approved by the Ministry of Labor which is responsible for the EGF, the mission has estimated the incremental project resources to be allocated in order to finance women's groups in 2015 (formed in 2014). This amount (USD 0.3

million) is under the 'non-allocated' budget line. Should the agreement be enforced and the EGF able to finance PMPMD-supported women's groups, this amount could be reallocated during the next supervision mission to other activities.

- **Additional women's groups and inclusion of all herders.** Considering (a) the success of the credit line for women's groups and its performance as well as the demand for such a facility by *aimag* and *soum* governors and by women in project *aimag*, and (b) the difficulty to implement pasture management plans at *soum* level with only some pasture herders groups supported by the project, the mission recommended to: (i) increase the number of women's groups to be formed in 2014 (and financed in 2015) by 50 (from 100 to 150 women's groups formed), and (ii) to include all herders in a given *soum* in training and capacity building activities implemented under the project. The cost related to the inclusion of all herders in raining and capacity building sessions has been included in the reallocated project costs [financial incidence: USD 30,000 over two years - cat. 3-b].
- **Other activities included in the reallocation of project costs.** Other activities considered for project cost reallocation include: (a) Study tour for PHGs leaders within Mongolia [financial incidence: USD 10,000 over 2 years - cat. 4]; (ii) contracting short-term liaison officer to assist *soum* facilitators for cooperative issues [financial incidence: USD 10,000 over 2 years - cat. 3-b]; (iii) additional investments at *soum* level [financial incidence: USD 15,000 per *soum* i.e. USD 225,000 over 2 years - cat. 3-a]; (iv) participation in training provided by bank at branch level for its staff and training provided by SGF [financial incidence: USD 10,000 over 2 years - cat. 3-b]; (v) additional training for women's groups in financial management, accounting and reporting [financial incidence: USD 30,000 over 2 years - cat. 4], and (vi) joint-venture investment in Technological Park as a pilot [financial incidence: USD 50,000 in 2015 - cat. 4]. Total incidence amounts to USD 365,000.

92. The project costs and budget lines including the above-mentioned recommendations shows an unallocated amount of USD 1.46 million should be as follows:

#	Categories	Revised Budget	Total expenses & commitments	Balance	First Reallocation	MTR Recommendations	Budget after MTR recom.	Balance after MTR recom.
I	Civil works	524.560	1.056.190	-531.630	550.000		1.074.560	18.370
II	Vehicles & Equipment	995.400	1.125.940	-130.540	150.000		1.145.400	19.460
III-a	Inputs: Tools & Materials	1.627.400	869.806	757.594	-750.000	225.000	1.102.400	232.594
III-b	Inputs: Economic Development Costs	1.896.000	1.325.013	570.987	-570.000	50.000	1.376.000	50.987
IV	Group Formation and Project Grants	995.400	1.263.647	-268.247	270.000	90.000	1.355.400	91.753
V-a	Guarantee: PMPMD aimags	1.042.800	900.000	142.800	900.000		1.942.800	1.042.800
V-b	Guarantee: non-PMPMD aimags	1.975.000	-	1.975.000	-1.975.000		-	-
V-c	Credit lines	521.400	1.119.000	-597.600	600.000		1.121.400	2.400
VI	Operating costs	1.422.000	873.954	548.046	-500.000		922.000	48.046
	Unallocated	500.040		500.040		960.000	1.460.040	1.460.040
	Total	11.500.000	8.533.551	2.966.449	-1.325.000	1.325.000	11.500.000	2.966.449

93. If the one-year extension of the project is accepted, resources that are under the 'unallocated' budget line can be transferred to cover the following incremental expenses related to the one-year extension: (i) PMU for staff and operating expenses (USD 0.35 million); (ii) LGF staff and operating expenses (USD 0.26 million); (iii) Pasture management NGO and facilitators (USD 0.2 million), and (iv) women's groups NGO and facilitators (USD 0.3 million) for a total financial incidence of US 1.1 million. Should the GoM agree on the one-year extension and on the above-mentioned other recommendations, the project costs and budget lines should be as follows, with an 'unallocated' budget line of USD 0.35 million:

#	Categories	Revised Budget	Total expenses & commitments	Balance	First Reallocation	MTR Recommend.	Budget after MTR recom.	Balance after MTR recom.	Realloc. for 1-year extension	Budget after 2nd Realloc.	Balance after 2nd Realloc.
I	Civil works	524.560	1.056.190	-531.630	550.000		1.074.560	18.370		1.074.560	18.370
II	Vehicles & Equipment	995.400	1.125.940	-130.540	150.000		1.145.400	19.460		1.145.400	19.460
III-a	Inputs: Tools & Materials	1.627.400	869.806	757.594	-750.000	225.000	1.102.400	232.594	200.000	1.302.400	432.594
III-b	Inputs: Economic Development Costs	1.896.000	1.325.013	570.987	-570.000	50.000	1.376.000	50.987	260.000	1.636.000	310.987
IV	Group Formation and Project Grants	995.400	1.263.647	-268.247	270.000	90.000	1.355.400	91.753	300.000	1.655.400	391.753
V-a	Guarantee: PMPMD aimags	1.042.800	900.000	142.800	900.000		1.942.800	1.042.800		1.942.800	1.042.800
V-b	Guarantee: non-PMPMD aimags	1.975.000	-	1.975.000	-1.975.000		-	-		-	-
V-c	Credit lines	521.400	1.119.000	-597.600	600.000		1.121.400	2.400		1.121.400	2.400
VI	Operating costs	1.422.000	873.954	548.046	-500.000		922.000	48.046	350.000	1.272.000	398.046
	Unallocated	500.040		500.040		960.000	1.460.040	1.460.040	-1.110.000	350.040	350.040
	Total	11.500.000	8.533.551	2.966.449	-1.325.000	1.325.000	11.500.000	2.966.449	-	11.500.000	2.966.449

K. Proposed Amendments to the Project Financing Agreement

94. Following the recommendations from the MTR mission, the Financing Agreement has to be amended to reflect the new situation. The changes in the Financing Agreement are as follows:

Section C: *The Project Completion Date shall be the fifth anniversary of the date of entry into force of this Agreement. To be replaced by: The Project Completion date shall be the sixth anniversary of the date of entry into force of this Agreement. However, this change will only occur if the GoM requests such project extension.*

Schedule 1:

I. Project description

4.1.1 **Value chain development.** *Loans will be disbursed by selected PFIs from their own resources under an agreement with the microfinance development Fund (MDF). To be replaced by: Loans will be disbursed by selected PFIs from their own resources or from resources made available by governmental funds and/or by donor-funded projects and will benefit from a guarantee extended by the project under its Loan Guarantee Facility.*

4.1.2 **Loan guarantee.** *To be replaced by: To support its guarantees, the Ministry of Finance will establish a temporary Unit as part of the Project Management Unit to extend both individual and portfolio guarantees to PFIs. At project's completion and subject to a positive evaluation on the sustainability of the Loan Guarantee Fund implemented by the Government of Mongolia, the Government of Mongolia and the project will assess the possibility of either sustainably institutionalizing the Unit or merging the Unit with the Loan Guarantee Fund. In that latter case, Unit's activities and staff would be integrated into that of the Loan Guarantee Fund while guarantees previously extended by the Unit would be endorsed by the Loan Guarantee Fund. Operations of the temporary Unit will be overseen by a Technical Committee, which will be composed of representatives from ministries of Finance; of Industry and Agriculture, of Labor, and of Economic Development as well as one representative from the Bankers' Association and one lawyer (preferably from the Central Bank Legal Unit). The Unit will be monitored, supervised and controlled by the Financial Regulatory Commission. The sustainability of the Unit will be achieved through the investment of its resources in secured financial instruments generating income that would be used to cover the Unit's operating expenses. A Loan Guarantee Manual will be prepared by the Project and approved by IFAD prior to disbursements under this component. Changes in the Loan Guarantee Operational Manual will only be made with IFAD's prior approval.*

4.2.1 **Pasture management.** *..and the establishment, registration and training of about 135 Pasture Herders Groups.. to be replaced by: ..and the establishment, registration and training of 120 Pasture Herders Groups...*

4.2.1 **Pasture management.** *A three-year Pasture Management Plan and annual activity will be drawn by each PHG in a participatory manner to be replaced by: Pasture Management Plans will be elaborated in a participatory manner at the level of each project-supported PHG and consolidated at soum level. In that respect, to maximize the impact of these Pasture Management Plans for herders, non project-supported herders and herders' groups will also be associated in the consolidation and final adoption process.*

II. Implementation arrangements

10 **Implementation strategy.** *The implementation of the guarantees and the microfinance sub-component will be entrusted to the MDF to be replaced by: The implementation of the guarantees and the microfinance sub-component will be entrusted to a specific Unit 'Loan Guarantee Facility Unit' of the Project Management Unit.*

Schedule 2: (see section J above).

After reallocation of programme costs, the IFAD Loan allocation table will be as follows (without and with programme extension).

Allocation table in SDR

Categories	Initial Budget	Revised Budget	Reallocation	
			without extension	with extension
I Civil works	320.000	331.000	677.000	677.000
II Vehicles & Equipment	170.000	628.000	722.000	722.000
III-a Inputs: Tools & Materials	1.030.000	1.026.000	695.000	821.000
III-b Inputs: Economic Development Costs	1.200.000	1.195.000	867.000	1.032.000
IV Group Formation and Project Grants	780.000	627.000	855.000	1.043.000
V-a Guarantee: PMPMD aimags	1.930.000	657.000	1.225.000	1.225.000
V-b Guarantee: non-PMPMD aimags		1.245.000	-	-
V-c Credit lines		329.000	707.000	707.000
VI Operating costs	1.100.000	897.000	581.000	802.000
Unallocated	720.000	315.000	921.000	221.000
	7.250.000	7.250.000	7.250.000	7.250.000

95. In addition, the following text should be added to the Implementation strategy section: (i) *The Unit will also provide its guarantee coverage to Participating Financial Institutions for loans extended by them from resources of the Employment Generation Fund in all aimags across Mongolia. These loans will benefit from a risk coverage of 80% by the Project Loan Guarantee Facility, and (ii) Project-supported women's groups are not eligible to loans extended by financial institutions from resources of the Employment Generation Fund. Consequently, project's resources will be used by the Ministry of Finance to extend credit lines to PFIs to finance the demand for loans emanating from members of project-supported self-help groups under the same terms and conditions as those used by PFIs when using the Employment Generation Fund resources to finance eligible beneficiaries (interest rate at 0.875% per month). Loan repayments will constitute a revolving fund with each PFI. A Subsidiary Loan Agreement will be signed between each PFI and the Ministry of Finance while a Memorandum of Understanding will be signed between the project and each PFI detailing the modus operandi of the credit line. Loans extended by PFIs using resources from the project credit line will be covered under the guarantee scheme of the Project Loan Guarantee Facility.*

L. Conclusion

96. Significant progress has been achieved by the PMPMD during the period since last supervision mission. While the Pasture Management and Climate Change Adaptation component is implemented according to plan, the Market Development component is still lagging behind. However, delay should be eliminated as the Value Chain Coordinator has now been recruited and activities have started to be implemented under the SMEs strengthening sub-component. Physical and financial achievements against the AWP&B reach high level. The performance of the NGO responsible for the women's component has been assessed as satisfactory by the MoIA monitoring, evaluation and internal audit department (the performance assessment of AGROM, the new NGO responsible of the pasture management and climate change adaptation component, will be carried out in 2015).
97. Main recommendations from the MTR mission, also reflected in the reallocation of project resources, include:
- (i) Subject to funds availability, the GoM should request IFAD for the extension of the project completion and Loan/Grant closing dates by one year to allow for more time to implement value chain activities as well as to monitor transformation of groups into cooperatives. Alternative solution also subject to availability of funds, which is not excluding the time extension, would consist in a geographical extension so as to expand the benefits of the project in all *soums* of the PMPMD-supported *aimags*;
 - (ii) PMPMD LGF to focus on extending individual guarantees to 45 SMEs/Cooperatives identified under the SMEs strengthening sub-component and extending portfolio guarantee to suppliers' groups (under VC sub-component), women's groups (under micro-enterprise sub-component) and to banks when lending from EGF resources across all 21 *aimags* while guarantees to SMEs will be extended by the SGF;
 - (iii) PMPMD LGF institutionalization should be revised: incorporation of new members in the MoF TC of the LGF; authorized signature vested with MoF State Secretary for guarantee contracts and pay-outs; procedures and authorized signatories on PMPMD LGF activities to be decided by MoF, MoIA, Auditors General and FRC and submitted to IFAD; supervision by FRC
 - (iv) Subject to funds availability, the number of women's groups formed in 2014 should increase from 100 groups as originally planned up to 150 groups;
 - (v) Training and capacity building of PMPMD activities' beneficiaries are to be increased to ensure sustainability of activities and of institutions promoted under the project (groups/cooperatives). To all extent possible, provision of training/capacity building related to Market Development component should be jointly carried out with SGF;
 - (vi) Additional investments under Pasture Management and Climate Change Adaptation component should be based on a need assessment at PHG and *soum* levels and technical opinions from relevant institutions;
 - (vii) Training on pasture management should be provided to all herders in project-selected *soums* to improve quality and enforcement of *bag* and *soum* levels pasture land management plans;
 - (viii) Consideration should be given to the incorporation of innovative pasture land management techniques in training materials in partnership with an appropriate institute.
98. The next Supervision mission is scheduled for June 2015.

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	10 July 2014						
Supervising Inst.	IFAD/IFAD						
No. of Supervisions	2	No. of Implementation Support/Follow-up missions	2				
Last Supervision	June 2013	Last Implementation Support/Follow-up mission	Feb/March 2014				

					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	11.48	41%
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	
Original closing	31-Mar-2017			Government (National)	0.90	7%
Current closing	31-Mar-2017			Domes. Fin. Inst.	2.66	
No. of extensions	0			External Cofinancing Total (GEF)	1.50	44%

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

B.5 Justification of ratings

Recruitment of the Value Chain Coordinator has triggered activities under this component (15 SMEs to be financed just after MTR). Signatures of SLAs and guarantee contracts/agreements have led to women's groups financing and guarantee. The PMPMD LGF guarantee will also become available for micro and small enterprises under the local SMEs development sub-component. Revolving Funds at level of Pasture Herders' Groups and women's groups have led to a significant empowerment and ownership of project's activities as well as project investments' sustainability. Exit strategy has been fine-tuned especially for the PMPMD LGF considering the existence of the State Guarantee Fund and the need to avoid competition on a small SMEs market.

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	4
C.4 Overall implementation progress (Sections B1 and B2)	4	4
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 all sub-components coordinator (pasture, women's groups and value chains) at the PMPMD PMU has boosted the implementation and activities of all components. PMPMD LGF has now entered into agreements with 7 commercial banks for the guarantee activity and 2 commercial banks for the refinancing of loans extended to women's groups.		
C.5 Likelihood of achieving the development objectives (section B3 and B4)	4	4
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.		
C.6 Risks Short description of major risks for each section and their impact on achievement of development objectives and sustainability		
Fiduciary aspects	No major risk identified	
Project implementation progress	No major risk identified	
Outputs and outcomes	No major risk identified. The MTR mission is recommending some changes in the outputs/outcomes and number of targeted beneficiaries due to the change in the overall financial sector (especially the effective implementation of the State Guarantee Fund and the change in the agreement with the Employment Generation Fund and its access to PMPMD LHGF guarantee scheme).	
Sustainability	No major risk identified.	

Proposed Follow-up

Issue / Problem	Recommended Action	Timing	Status
Relation between PMPMD LGF, commercial banks and State Guarantee Fund	Considering the evolution of the purpose and activity of the PMPMD LGF as well as the need to closely work with the State Guarantee Fund, the mission recommends a support mission to take place in September/October 2014 to finalize the agreements with a banks (after amending the SLAs and guarantee contracts as recommended by the MTR mission) and to finalize the work plan with the STG	September 2014	Planned
Implementation of VC component	A mission is recommended by the MTR to support the implementation of the supply chain activities within the national value chains and its connections with the PMPMD LGF guarantee facility and or SGF facility.	September 2014	Planned

Appendix 2: Logframe Revised

	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.	<div>·Political stability.</div> <div>·Major shocks or crises do not weaken project effects.</div>
Development Objective	Reduce poverty and improve livelihoods of poor herder and <i>soum</i> and <i>aimag</i> centre households in the project area.	· Improvements in household assets ownership index	- Baseline and completion impact (including RIMS).	- Political stability.
		· Reduction in prevalence of child malnutrition;		- Major shocks or crises which could weaken project effects do not occur; or are sufficiently mitigated.
		· Improvements in household income;	- UNICEF and UNDP child nutrition and poverty assessments.	
		· Poverty incidence in project area.		
1	Pro-poor value chain strengthening in Soum and Aimag centres			
1.1.1	3 value chains are strengthened and producers’ groups are sustainably linked to processors/buyers in these value chains	<div>· 120 producers groups are formed and trained</div> <div>· 2 500 producers have signed a long-term supply contract with processors/buyers (directly or through the producers’ groups)</div> <div>· 30% increase in revenues for producers</div> <div>· > 80% of producers have access to participating bank loan</div>	NGO and group records. Buyers/processors financial statements, contracts and reports	<div>Governmental Development Funds resources sufficient to be sued by commercial banks to provide credit to IFAD target group if loan risk mitigated.</div> <div>Sufficient production and market demand to form 120 groups.</div> <div>Local market continues to value herder products even in face of cheaper food import prices.</div>
1.1.2	A sustainable and capacitated PMPMD LGF is extending credit lines and guarantees to participating banks covering risks on lending to PMPMD target groups	<div>· 5 commercial banks’ portfolio participate in the PMPMD LGF guarantee scheme</div> <div>· Leverage is 8 minimum at project completion</div> <div>· Maximum 2% of loans disbursed are claimed to the PMPMD LGF (women’s groups, producers’ groups, MSEs)</div> <div>· All 21 aimags loans with EGF resources are guaranteed by the PMPMD LGF</div> <div>· Repayment rate on loans extended with PMPMD credit lines is > 99%</div> <div>· Revenues from PMPMD LGF resources invested > 150% PMPMD LGF operating costs</div>	<div>· Producer Group records;</div> <div>· Business plan and SME balance sheet;</div> <div>· Producer group and value chain partners accounts.</div> <div>· Participating banks financial statements</div> <div>· PMPMD LGF financial statements</div>	
1.1.3	60 micro-enterprises strengthened, having access to investment and working capital financing and developing back ward linkages with poor HHs	<div>· > 3,000 additional suppliers included in the supply chains of the PMPMD-supported micro-enterprises (more than 80% being poor ones)</div> <div>· > 80% of micro-enterprises still operating at project’s inception</div>	<div>· MoU between PGs, PMU and private sector;</div> <div>· MSEs registration records and income statements;</div> <div>· MSEs earnings and dividend records.</div>	
1.2.1	> 3 500 women have knowledge and skills needed for generating savings and accessing credit from own resources or externally.	<div>· # of WGs formed & # of members (410 Groups; 4 100 members)</div> <div>· % of WGs meeting savings targets; (MNT 2 years of women’s groups operation started)</div> <div>· 100% of mobilized savings on-lent to members on a revolving way;</div> <div>· # and total amount of bank loans issued to WGs per year (410 loans at MNT 4.1 billion)</div> <div>· % and amount of loans disbursed outside of PMPMD credit lines at project completion (> 30% of all loans disbursed for MNT million)</div>	<div>· NGO and group records;</div> <div>· Bank and LGF records.</div>	
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	At least 50% of Herder households in 15 target soums collaborate effectively in joint management of pastures that are part of Soum Land Management Plan.	<ul style="list-style-type: none"> . Number of PMPs issued; . Number of PMPs integrated into Soum Land Management Plan. . 95% of PHG member HHs moving on time in relation to soum-wise PMPs spring/summer pasture rotation targets. . Number of hectares of pasture land rotated by herders in 15 soums . 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.
2.2	Knowledge and capacity of local government and 50% of herder households in 15 target soums to adapt to climate change improved to better 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. . 50% of all households including all members of PHGs trained in improved pasture management practices . Number of extension workers trained and working for animal husbandry, well maintenance, 	<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	Soum Land Management Plans which integrated Herder Group's PMPs are actively enforced by local government (policies, regulations, budget) to increase resilience of herders to climate change impacts.	<ul style="list-style-type: none"> . 3-5 <i>aimags</i> and at least 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
Outputs			
Pasture Management	Include all herders in a given soum in training on pasture land management	On-going	PMU
	Include innovative pasture land management techniques in appropriate training	August 2014	PMU
	Develop a pasture condition monitoring scheme and periodic information feedback shared with soums and bags officers and PHGs' leaders	September 2014	PMU
Climate Change Adaptation	Redraft soum pasture management officers' ToRs and reorganize their daily tasks	September 2014	PMU & MoIA
	Ensure that project investments are in line with needs assessment outcomes and technical opinions of relevant institutions	On-going	PMU
	Ensure alignment of CCA investments with bag pasture management plans	On-going	PMU
	Consider additional investments at soum level, subject to funds availability, where LDF are allocated in line with soum land management plans	On-going	PMU
Value Chain Development	Ensure MoEGD leadership in CCA training provision and quality control	July 2014	PMU & MoEGD
	Issue call for proposals for 15 SMEs to be guaranteed and capacitated	August 2014	PMU
	Select up to 3 national value chains and update value chain analysis	October 2014	PMU & MoIA TWG on VC
	Develop a roadmap for investment in Technological Park	December 2014	PMU & MOED
Small and micro-enterprises development	Further train women's groups in financial management, bookkeeping, business planning and cash-flow management in collaboration with SGF	September 2014	NGO (UMPSC)
Guarantee Facility	Enlarge the MoF TC for the LGF (MoED representative, lawyer, bankers' association representative)	July 2014	MoF
	Review role and responsibilities of MoF TC and MoF State Secretary	July 2014	MoF
	Consolidate PMPMD LGF financial statements and operations in PMPMD PMU financial statements	July 2014	MoF
Project Management	Convene a meeting to analyze the most appropriate procedures and signatories for LGF activities	Immediately	MoF, MoIA, Auditor general, FRC
	Procure a database software and local service provider to fine-tune database to PMPMD LGF needs and requirements	August 2014	PMU & LGF
	Amend PMPMD LGF guarantee contracts to reflect maximum liability to be taken by banks	Immediately	LGF
	Ensure retroactive compliance of guarantee requirements	August 2014	LGF & Commercial banks
	Assist in the drafting of a MoU for the monitoring, supervision and audit of PMPMD LGF	August 2014	LGF, MoF & FRC
	Enlarge PMPMD LGF scheme to loans extended by commercial banks from EGF resources and suspend issuance of PMPMD LGF guarantees to SMEs outside project aimags	Immediately	LGF, MoF & MOL/EGF
	Request an extension of the project completion and closing dates of one year to allow for more time to implement value chain activities and to monitor transformation of groups into cooperatives	September 2014	MoF & MoIA
	Further include soums and aimags governments in training	On-going	PMU & NGOs (UMPSC and AGROM)
	Establish and maintain performance security control log to monitor contract performance	July 2014	PMU
	Assess, evaluate and record banks, institutions, and beneficiaries' contributions	September 2014	PMU
	Adjust entries related to PMPMD LGF	July 2014	PMU

Appendix 4: Physical progress measured against AWP&B.

Indicators	Unit	As at December 31st, 2013				
		AWP-B	Actual	%	Total Progress	%
Rangelands/Pastures						
Environmental management plans formulated	#	60	60	100	60	50
Groups involved in NRM formed/strengthened	#	60	60	100	60	50
Land under improved management practices	ha		2.421		2.421	
Land under irrigation scheme constructed/rehabilitated	ha	30	130	433	130	
Livestock waterpoints constructed/rehabilitated	#	30	24	80	24	52
NRM groups with women in leadership positions	#				11	
People accessing development funds (men)	#					
People accessing development funds (women)	#					
People accessing development funds (men and women)	#	1.720	10	1	10	-
People in NRM groups formed/strengthened - rangelands (men)	#	1.650	2.061	125	2.061	51
People in NRM groups formed/strengthened - rangelands (women)	#	1.650	1.826	110	1.816	45
People in NRM groups formed/strengthened - rangelands (men and women)	#					
People receiving vocational training (men)	#	15	22	147	22	147
People receiving vocational training (women)	#	15	21	140	21	140
People receiving vocational training (men and women)	#					
People trained in NRM (men)	#	113	400	354	628	39
People trained in NRM (women)	#	113	197	309	309	19
People trained in NRM (men and women)	#					
People trained in business/entrepreneurship (men)	#	50	53	106	142	
People trained in business/entrepreneurship (women)	#	50	7	14	46	
People trained in business/entrepreneurship (men and women)	#					
People trained in community management (men)	#					
People trained in community management (women)	#					
People trained in community management (men and women)	#	60		-	128	
People trained in infrastructure management (men)	#					
People trained in infrastructure management (women)	#					
People trained in infrastructure management (men and women)	#					
Rainwater harvesting systems constructed/rehabilitated	#		2		2	40
Staff of service providers trained (men)	#	50	88	176	88	106
Staff of service providers trained (women)	#	40	67	168	67	82
Staff of service providers trained (men and women)	#					
Storage facilities constructed/rehabilitated	#	1	1	100	2	20
Rural Enterprises						
Enterprises accessing facilitated financial services	#					
Enterprises accessing facilitated non-financial services	#					
People accessing facilitated advisory services (men)	#					
People accessing facilitated advisory services (women)	#					
People accessing facilitated advisory services (men/women)	#					
People trained in business/entrepreneurship (men)	#	75	71	95	74	5
People trained in business/entrepreneurship (women)	#	225	322	143	431	10
People trained in business/entrepreneurship (men/women)	#					
People trained in community management (men)	#	60	181	302	327	24
People trained in community management (women)	#	240	558	232	1.142	28
People trained in community management (men/women)	#					
People trained in income generating activities (men)	#	55	44	80	44	24
People trained in income generating activities (women)	#	165	596	361	596	110
People trained in income generating activities (men/women)	#					

Indicators	Unit	As at December 31st, 2013				
		AWP-B	Actual	%	Total Progress	%
Rural Financial Services						
Active borrowers (men)	#		14		14	
Active borrowers (women)	#		62		65	
Active borrowers (men/women)	#	110		-		-
Active borrowers (enterprises)	#					
Financial institutions participating in project	#		2		2	
People in savings and credit groups formed/strengthened (men)	#	468	313	67	448	33
People in savings and credit groups formed/strengthened (women)	#	1.404	1.006	72	1.592	39
People in savings and credit groups formed/strengthened (men/women)	#					
People trained in financial services (men)	#	75	71	96	74	5
People trained in financial services (women)	#	225	322	143	440	11
People trained in financial services (men/women)	#					
Savings/credit groups formed/strengthened	#	150	150	100	260	72
Savings/Credit groups with women in leadership positions	#	135	128	95	235	73
Staff of financial institutions trained (men)	#					
Staff of financial institutions trained (women)	#					
Staff of financial institutions trained (men/women)	#					
Value of gross loan portfolio	USD '000	500	426	85	426	
Value of gross loan portfolio (enterprises)	USD '000					
Value of voluntary savings mobilized	USD '000		9		9	
Voluntary savers (men)	#		81		81	
Voluntary savers (women)	#		271		271	
Voluntary savers (men/women)	#					
Marketing Inputs/Outputs						
Marketing groups formed/strengthened	#	10				
Marketing groups with women in leadership positions	#					
People in marketing groups formed/strengthened (men)	#					
People in marketing groups formed/strengthened (men)	#					
People in marketing groups formed/strengthened (men)	#					
People trained in business/entrepreneurship (men)	#					
People trained in business/entrepreneurship (men)	#					
People trained in business/entrepreneurship (men)	#					
People trained in post-production, processing and marketing (men)	#					
People trained in post-production, processing and marketing (men)	#					
People trained in post-production, processing and marketing (men)	#					
Outreach Indicators						
Communities receiving project services	#	20	20	100	56	373
Groups receiving project services	#	150	150	100	320	52
Households receiving project services	#	3.822	9.014	236	9.412	48
Individuals receiving project services (men)	#	7.550	14.621	194	19.010	
Individuals receiving project services (women)	#	7.550	17.872	237	23.235	
Individuals receiving project services (men/women)	#					

Appendix 4a: RIMS Indicators as at June 2013

	Results	Unit	Period ending: December 2013			Cumulative 2013		
			AWP&B	Actual	% of AWPB	Appraisal	Actual	% of Appraisal
Total Outreach	1.8.4 Communities receiving project services	Number	20	20	100%	15	56	373%
	1.8.3 Groups receiving project services	Number	150	150	100%	615	320	52%
	1.8.2 Households receiving project services	Number	3.822	9.014	236%	19.700	9.412	48%
	1.8.1 People receiving project services	Number	15.100	32.493	215%	88.650	42.245	48%
		Male	7.550	14.621	194%	44.325	19.010	43%
		Female	7.550	17.872	237%	44.325	23.235	52%
Component	Sub Comp							
Value chain development	1.4.5 People in marketing groups formed/strengthened	Number	0	0	n/a	5.500	0	n/a
	1.5.3 People trained in business and entrepreneurship skills	Number	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
1.4.6 Marketing groups with women in leadership position		Female						
		Male						
Small enterprise	1.5.5 Enterprises accessing financial services facilitated by the project	Number	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	5	0	n/a
1.2.5 People accessing advisory services facilitated by project		Number	0	0	n/a	5.500	0	n/a
	1.3.12							
Micro-enterprise development	People trained in financial services	Number	300	393	131%	5.500	514	9%
		Female	225	322	143%	4.125	440	11%
1.5.3 People trained in business and entrepreneurship skills		Male	75	71	95%	1.375	74	5%
		Number	300	393	131%	5.500	505	9%
1.6.2 People trained in community management topics		Female	225	322	143%	4.125	431	10%
		Male	75	71	95%	1.375	74	5%
1.3.1 Saving and credit groups formed/strengthened		Number	1.200	739	62%	5.500	1.469	27%
		Female	240	558	233%	4.125	1.142	28%
1.3.2 People in saving and credit groups formed/strengthened		Male	60	181	302%	1.375	327	24%
		Number	150	150	100%	360	260	72%
1.5.1 People trained in income generating activities		Number	1.872	1.319	70%	5.500	2.040	37%
		Female	1.404	1.006	72%	4.125	1.592	39%
1.3.3 Saving and credit groups with women in leadership position		Male	468	313	67%	1.375	448	33%
		Number	220	640	291%	1.800	640	36%
1.3.6 Voluntary savers		Female	165	596	361%	540	596	110%
		Male	55	44	80%	180	44	24%
Loan guarantee	1.3.4 Financial institutions participating in the project	Number	135	128	95%	324	235	73%
	1.3.5 Staff of financial institutions trained	Number	nt	2	n/a	nt	2	n/a
1.3.8 Active borrowers (disaggregated by gender)		Number	0	0	n/a	nt	0	0%
		Female	110	76	69%	360	76	21%
1.3.7 Value of voluntary savings		Male	n/a	62	n/a	n/a	65	n/a
		Female	n/a	14	n/a	n/a	14	n/a
1.3.10 Value of gross loan portfolio		USD	nt	9.000	n/a	-	9.000	n/a
		Number	n/a	352	n/a		352	n/a
1.3.9 Value of gross loan portfolio (enterprises)		Female	n/a	271	n/a		271	n/a
		Male	n/a	81	n/a		81	n/a
1.3.11 Value of the gross loan portfolio (enterprises)		USD	500.000	426.275	85%	n/t	426.275	n/a
		Number	nt	0	n/a	500	0	0%
		USD	nt	0	0%	-	0	0%

Pasture management and climate change adaptation	Pasture management	1.1.10	Natural resources management groups formed/strengthened	Number	60	60	100%	120	60	50%
		1.1.11	People in natural resources management groups formed/strengthened	Number	3.300	3.877	117%	8.100	3.877	48%
				Female	1.650	1.816	110%	4.050	1.816	45%
				Male	1.650	2.061	125%	4.050	2.061	51%
		1.1.12	Natural resources management groups with women in leadership position	Number	nt	11	n/a	-	11	n/a
		1.5.2	People receiving vocational training	Number	30	43	143%	30	43	143%
				Female	15	21	140%	15	21	140%
				Male	15	22	147%	15	22	147%
		1.6.2	People trained in community management topics	Number	60	0	0%	n/t	128	n/a
				Female	nt	0	0%	n/t	50	n/a
				Male	nt	0	0%	n/t	78	n/a
		1.1.9	People trained in natural resources management	Number	225	597	265%	3.240	937	29%
				Female	113	197	175%	1.620	309	19%
				Male	113	400	356%	1.620	628	39%
		1.5.3	People trained in business and entrepreneurship skills	Number	100	60	60%	n/t	188	n/a
				Female	50	7	14%	n/t	46	n/a
				Male	50	53	106%	n/t	142	n/a
		1.1.13	Environmental management plans formulated	Number	60	60	100%	120	60	50%
		1.1.14	Land under improved management practices	Ha	nt	2.421	n/a	n/t	2.421	n/a
		1.2.1	Staff of service providers trained	Number	15	15	100%	15	15	100%
		- facilitators		Female	3	4	n/a	-	4	n/a
				Male	12	11	n/a	-	11	n/a
		1.2.1	Staff of service providers trained	Number	75	140	187%	165	140	85%
		- veterinary and breeding		Female	37	63	0%	82	63	77%
				Male	38	77	0%	83	77	93%
		1.1.5	Land under irrigation schemes constructed/rehabilitated	Ha	30	130	433%	n/t	130	n/a
		1.4.8	Storage facilities constructed/rehabilitated	Number	1	1	100%	10	2	20%
			Rainwater harvesting system constructed/rehabilitated	Number	2	2	100%	5	2	40%
		1.1.6	Livestock water points constructed/rehabilitated	Number	30	24	80%	46	24	52%
		1.6.8	People accessing development funds created under the project	Number	1.720	10	1%	4.200	10	0%
		1.1.1	People trained in infrastructure management	Number	60	24	40%	92	24	26%

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)	% disbursed
IFAD loan	11.479	2.141,60	19%
GEF grant	1.500	416,95	28%
Government	899	63,30	7%
Beneficiaries	168		0%
Companies	1.663		0%
Institutions	2.656		0%
Total	18.365	2.621,85	14%

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

	IFAD loan			GF Grand			Government			Beneficiaries, Companies and Institutions			Total		
Component	Appraisal	Actual	%	Appraisal	Actual	%	Appraisal	Actual	%	Appraisal	Actual	%	Appraisal	Actual	%
A. Market Development	5.256	67,2	1%				207		0%	168		0%	5.631	67,2	1,2%
B. Pasture Management, Climate Change Adaptation	4.956	1.739	35%	1.501	416,9	28%	602	50,7	8%				7.059	2.206	31%
C. Project Management	1.267	335,6	26%				89	12,6	14%				1.356	348	26%
Total	11.479	2.142	19%	1.501	416,9	28%	898	63,3	7%	168	0%		14.046	2.622	19%

Table 5C-a:

IFAD loan disbursement, comparisons between original and revised allocations and actual disbursement (SDR, as at 31 May 2014)

Cat.	Category	Revised Allocation	Revised Allocation 2014	Disbursement	Balance	% disbursed	W/A pending	Disbursed + Pending WA	% (Disbursed+ Pending)
I	Civil Works	330.000	330.000	106.189	223.811	32%	4.964	111.153	34%
II	Vehicles, equipment	620.000	620.000	247.698	372.302	40%	443	248.141	40%
III	Inputs	-	-	-	-	-	-	-	-
III-a	Tools, materials	570.000	570.000	154.097	415.903	27%	-	154.097	27%
III-b	Economic Development Costs	1.190.000	1.190.000	62.432	1.127.568	5%	30.624	93.055	8%
IV	Group formation & Project Grants	620.000	620.000	164.957	455.043	27%	75.231	240.188	39%
V	Financing instruments	-	-	-	-	-	-	-	-
V-a	Loan guarantees for beneficiaries in Project Target Area	660.000	660.000	-	660.000	0%	-	-	0%
V-b	Loan guarantees for beneficiaries outside Project Target Area	1.240.000	1.240.000	-	1.240.000	0%	-	-	0%
V-c	Credit line	330.000	750.000	271.134	58.866	82%	52.597	323.731	98%
VI	Field & management staff, operating costs and maintenance	1.100.000	1.100.000	-	1.100.000	0%	-	-	0%
	Unallocated	590.000	170.000	177.231	412.769	30%	40.689	217.920	37%
	Initial deposit			972.044	(972.044)			972.044	
	Advance for Guarantee			596.675	(596.675)			596.675	
	Total	7.250.000	7.250.000	2.752.455	4.497.545	38%	204.548	2.957.003	40,79%

Table 5C-b: GEF Grant disbursements (USD, as at 31/5/2014)

Cat.	Category description	Revised allocation	Revised allocation 2014	Disbursement	Balance	% disbursed	W/A pending	Disbursed + Pending WA	% (Disbursed+ Pending)
II	Vehicles, equipment	60.000	60.000	38.280	21.720	64%	3.774	42.055	70%
III-a	Inputs - Tools, materials	340.000	340.000	104.339	235.662	31%	5.583	109.922	32%
III-b	Inputs - Economic Development Costs	930.000	930.000	228.011	701.989	25%	36.943	264.954	28%
VI	Field & Mmanagement staff, operating costs and maintenance	22.000	22.000	22	21.978	0%		22	0%
	Unallocated	148.000	148.000	-	148.000	0%		-	0%
	Initial deposit		-	250.000	(250.000)			250.000	
	Total	1.500.000	1.500.000	620.651	879.349	41%	46.301	666.952	44%

Appendix 6: Compliance with legal covenants: Status of implementation

Section	Covenant	Target/Action Due Date	Compliance Status/Date
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
Section 4.05, section 11.10(b)	Audit report submitted to IFAD.	June 2014	Being complied
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.		Complied
Schedule 4, para 16	Project to be exempted from all import duties, excise taxes and value added tax (VAT) on investment expenditures		Complied
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	Complied. 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
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	Complied. 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.
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	Complied. 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
Section B.9 Financing Agreement	The Borrower/Recipient shall exempt all duties and taxes associated with the Project.		Complied
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	Complied. D. Dalantainyam was appointed as a Project director by the order B/56 of the state secretary of MoIA on 16 th November 2011. 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 offices have been provided by the MoIA.
Section E.1(b) Financing Agreement	The Designated accounts and the Project accounts shall have been opened	By the end of 2011	Complied. The Designated Accounts and the Project Accounts have been opened

Section	Covenant	Target/Action Due Date	Compliance Status/Date
Section E.1(c) Financing Agreement	The Project Steering Committee (PSC) shall have been established.	By the end of 2011	Complied. The PSC was established by the order of the State Secretary of MoIA in December 2011. 7 members, representing MoIA, MoF, Mongol Bank, MoED, and 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
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 reviewing the operations of the Loan Guarantee Fund. The approval of Loan Guarantee Operational Manual by IFAD.	By the end of March 2013	Complied. 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 approve by both the LGF Technical Committee and the PMPMD Steering Committee (approved by IFAD).
Para. 6, Schedule 1 Financing Agreement	The PSC will meet at least twice per year.		Complied
Para. 8, Schedule 1 Financing Agreement	Annual Work 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	Complied.
Section E.3 Financing Agreement	This Agreement is subject to ratification by the Borrower/Recipient.		Complied. The Financing Agreement was ratified by the Parliament of Mongolia on 10 July 2011.
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 Aimag of Huvsgul, Arhangay, Bulgan, Hentii and Gobi-Altai (the "Project area").		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		Being complied.

Section	Covenant	Target/Action Due Date	Compliance Status/Date
	<p>of the proposed production, quality and marketing modalities as well as the premium pricing mechanism, finalization 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.</p> <p>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" programmes and its measures, undertaken to develop agricultural commodity exchange in context of their general goals</p>		
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>Being complied.</p> <p>Being 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>		Being complied.

Section	Covenant	Target/Action Due Date	Compliance Status/Date
Para. 4.2.2 Schedule 1 Financing Agreement	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.	Activities would only start in 2013	Being complied.
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 mobilized to establish an appropriate Monitoring & Evaluation system	By the end of 2011	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 acts 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		Complied.



Enabling poor rural people
to overcome poverty

Mongolia

GRANT - MONGOLIA - GEF 3695 - Mid-Term Review - July 2014

Mid-Term Review report

Working papers

Mission Dates: 15-Jun-2014 to 5-Jul-2014
Document Date: Select date
Project No. IFAD Loan 1455 and GEF Grant 836
Report No: **[Insert report number]**

Asia and the Pacific Division
Programme Management Department

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Working Paper 1: Market Development

I. Introduction

1. The Market Development component's objective is to promote poverty reduction and livelihood improvement through economic development and consists of: (i) value chain development; (ii) small and micro-enterprises development, and (iii) loan guarantee and credit line. The implementation of the component activities is vested with: (i) the Union of Mongolian Products and Services Cooperatives (UMPSC) for the micro-enterprises development; (ii) the PMPMD PMU Value Chain Coordinator for the value chains and SMEs development, and (iii) the PMPMD Loan Guarantee Facility for the loan guarantee and credit line.

2. In Ulaanbaatar, the mission met with relevant ministries involved in rural development (MoIA, MoED, MoEGD, MoL), with relevant implementing agencies (PMPMD PMU Value Chain Coordinator and PMPMD PMU Micro-enterprises and women's development; PMPMD LGF Unit and the UMPSC), with relevant financial institutions (Financial Regulatory Commission, State Guarantee Fund, State Bank, Capital Bank). During its field trip, the mission met with numerous women's groups, with local representatives from participating banks (State Bank and Capital Bank), with representative from the Employment Generation Fund and the Ministry of Labor as well as with *soum* and *aimag* facilitators from the UMPSC. In addition, the mission also met several entrepreneurs and visited their enterprises among the 15 selected SMEs to benefit from the project's support.

3. The mission also attended two knowledge-sharing workshops organized by the UMPSC: one in Bulgan *aimag* for women's groups of Khentii, Huvsgul and Bulgan *aimags* and one in Arkhangay *aimag* for women's groups of Gobi-Altai and Arkhangay *aimags*. These two-day events have provided the opportunity for the mission to listen to problems and constraints faced by women's groups when implementing their activities or when requesting a loan from participating banks, to discuss with local banks' managers on how to address the issues (especially with regard to collateral) and also to discuss with representatives from *bag*, *soum* and *aimag* local administration to identify possible assistance from their side in order to improve the environment of women's groups activities.

II. Implementation Progress and Recommendations

Women's groups

4. **Overall assessment.** Discussions with *soums* and *aimags* governors have highlighted the extreme success of loans extended by the project to its women's groups and the demand largely unmet for similar loans in PMPMD-targeted *soums* and outside. Outcome survey carried out by the project with the assistance of IFAD in April 2014 shown that more than 3/4th of PMPMD-supported groups positively assess activities implemented under the project and considers that these activities (training, capacity building, and access to financial services) will benefit members' activities and households.

5. **Location.** Activities under this sub-component have been implemented in 20 *soums* in 2012 and in 15 additional *soums* in 2013, in total 35 *soums* have been included in the project. These *soums* have been selected based on their poverty level and accessibility from *aimag* centers (in 2012 the project worked with UMPSC and 5 *aimag* facilitators while in 2013 20 *soum* facilitators were contracted by the UMPSC in order to expand the outreach of the project's benefits away from *aimag* centers).

6. **Service Provider.** Activities under the sub-component have been implemented by the Union of Mongolian Production and Services Cooperatives (UMPSC). In that respect 4 contracts have been signed between the PMU and the UMPSC for a global value of MNT 231.5 million (i.e. USD 128,000).

7. **Number of groups and membership.** As of the date of the MTR mission, 250 women's groups have been formed and trained: 110 women's groups formed in 2012 and trained from September 2012 to March/April 2013 and 150 women's groups formed in 2013 and trained from September/October 2013 to March/April 2014. Total membership reaches 2,040 people of whom 1,592 are women and 448 are men. 312 women are women-headed households and 68 members are disabled citizens.

8. **Training of women's groups' members and UMPSC facilitators.** 5 different training sessions have been organized for 2,300 members of whom 1,905 are women. Training sessions include: (i) capacity building of *aimag* and *soum* facilitators (5 *aimag* facilitators and 20 *soum* facilitators); (ii) group formation (730 members from 2012 groups and 739 members from 2013 groups); (iii) business plan development and business management training (112 members from 2012 groups and 393 members from 2013 groups); (iv) loan application training (121 members from 2012 groups), and (v) cooperative training (205 members from 2012 groups). Technological training has also been provided to 950 women's groups' members of whom 878 are women. Technical training relates to: sewing (266 participants); vegetable processing (320 participants); handicraft and embroidery (212 participants); felt processing (92 participants), and milk processing (60 participants).

9. **Activities implemented.** Activities implemented by women's groups include: (i) agriculture for 36 groups; (ii) animal husbandry for 20 groups; (iii) trade for 65 groups, and (iv) production for 139 groups (shoes and boots, traditional/non-traditional clothes, agriculture/livestock processing activities, felt processing, handicraft, embroidery, painting and engraving).

10. **Financing of women's groups.** Initially, women's groups were to be financed by participating commercial banks from resources provided either by the Employment Generation Fund or the SMEs Development Fund. However, it soon appeared that access to those resources would not be possible for PMPMD-supported women's groups because: (i) resources from the SMEs Development Fund were to be allocated only to legally registered entities; groups are not considered as legally registered entities and are therefore not eligible for the SMEs Development Fund resources, and (ii) maximum loan size to be financed on resources from Employment generation Fund is MNT 5 million while most PMPMD-supported women's groups are requesting between MNT 8 to 10 million (i.e. MNT 1 million per member). In addition, Employment Generation Fund resources have to be used for creation of permanent jobs (1 job for each MNT 1 million lent); which is not always the case for the PMPMD-supported women's groups. Under such circumstances, the project was amended and USD 0.5 million were reallocated from the guarantee fund budget line to finance women's groups. This financing will be done through participating commercial banks that will use the PMPMD credit line under the same terms and conditions as the resources from the Employment Generation Fund and the SMEs Development Fund. Two banks have answered the PMPMD call for proposal (State Bank and Capital Bank) and have signed a Subsidiary Loan Agreement with the Ministry of Finance.

11. 95 women's groups have been financed by participating commercial banks from PMPMD credit line, of which 13 women's groups established in 2013. Of the 110 women's groups established in 2012, 82 have accessed loan funds either in 2013 or in 2014 (74.5%). The access rate by *aimag* is as follows: Arkhangay 59%; Bulgan 88.9%; Gobi-Altai 64.5%; Khentii 68.4%, and Khuvsgul 90%. Reasons behind this low access rate are: (i) women's groups have been able to access loan funds from the Employment Generation Fund or the Soum Development Fund, and (ii) groups have disbanded. State Bank has financed women's groups in each PMPMD *aimag* while Capital Bank has only financed women's groups in 3 aimags (Arkhangay, Bulgan and Khentii *aimags*). When adding the women's groups financed by other sources (Employment Generation Fund and Soum Development Fund), the access rate for 2012-established groups reaches 85.5% (94 women's groups out of 110 established).

12. **State Bank.** As of the date of the MTR mission, the PMPMD Loan Guarantee Facility Unit has transferred an amount of USD 0.4 million to the State Bank (MNT 625.0 million) to finance PMPMD-

supported women's groups. 76 women's groups for a total loan amount of 652.0 million have been financed by the State Bank: 62 women's groups established in 2012 financed in 2013 for an amount of MNT 524.5 million; 4 women's groups established in 2012 financed in 2014 for an amount of MNT 27.5 million; 10 women's groups established in 2013 financed in 2014 for an amount of MNT 100.0 million. Repayment rate is reportedly to be 100% and repayments amount to MNT 61.3 million of which MNT 27.0 million have been used to finance the above-mentioned 76 groups. With regard to grace period, majority of women's groups financed by the State Bank starts to pay back their loan after one month (54 groups out of 76); other groups benefit from a grace period ranging from 1 month to 36 months (of which 9 groups have a one-year grace period). With regard to the collateral requested by the State Bank, 31 groups have provided collateral the value of which was equal to 20-40% of the loan amount; 8 groups equal to 40-70% of the loan amount; 20 groups equal to 70-100% of the loan amount and 17 groups above 100% of the loan amount.

13. **Capital Bank.** Conditions for the Capital Bank to access PMPMD resources are that the Capital Bank has to pre-finance PMPMD-supported women's groups and submit loan applications and relevant documentation to the PMPMD LGF to access refinancing. As at the date of the MTR mission, Capital Bank has extended 16 loans for a total amount of MNT 143.2 million (USD 0.1 million). Repayment rate is reportedly to be 100%. With regards to grace period, 13 groups out of 16 financed are repaying their loan after one month and only 3 are benefitting from a grace period ranging from 4 to 12 months. With regard to the collateral requested by the Capital Bank, 3 women's groups provided collateral the amount of which was equivalent to 20-40% of the loan amount; 9 groups equivalent to 40 -70% of the loan amount and 4 groups equivalent to 70-100% of the loan amount.

14. **Other sources of financing.** 12 women's groups established in 2012 have been financed by participating commercial banks using resources from the Employment Generation Fund and directly by Soum Development Funds for a total amount of MNT 48.8 million.

15. **Transformation of women's groups into cooperatives.** Following the policy of the GoM, the project is providing technical assistance, training and capacity building to women's groups to transform into a cooperative. As at the date of the MTR mission, 205 members of 110 women's groups have participated in the specific training organized by the UMPSC on 'Cooperative basic understanding and cooperative establishment'. As a result, of the 110 women's groups supported under the PMPMD, 6 have already transformed into cooperatives (4 in Bulgan *aimag* and 2 in Gobi-Altai *aimag*) and 9 are in the process of starting their transformation. During the knowledge-sharing workshops, the mission reiterates the importance of such a transformation on a voluntary basis and stressed its benefits: (i) easier access to bank loans (banks lending to legally registered entities); (ii) separation of activities and assets, and (iii) legal protection under the Cooperative Law. It has to be noted that one of the six cooperatives is included in the project-supported value chain development sub-component. *The mission recommends to further promoting the transformation of women's groups into cooperatives on a voluntary basis.*

16. **Issues with women's groups sub-component.** The mission has identified several issues with regards to women's groups:

- ***Financing of 2013-established women's groups.*** As previously mentioned 150 women's groups have been established in 2013 and have requested a loan to the participating commercial banks in May/June 2014. As at the date of the mission, only 13 women's groups have been financed by the State Bank for an amount of MNT 128.0 million. The 137 other women's groups loan applications are being reviewed by both participating commercial banks and should be financed between July and October 2014, depending on the production and activity cycles as well as seasonality of the activities financed. However, in the case of the State Bank, PMPMD resources should be transferred first and then used by the State Bank to finance the groups (in the case of the Capital Bank, this latter is pre-financing the groups). To prevent any delay in the financing of women's groups by the State Bank that could jeopardize the implementation and development of women's groups activities, *the mission recommends the PMPMD PMU to expedite the transfer of the second credit line onto the PMPMD LGF credit lines bank account (for an amount of USD 0.8 million or MNT 1.44 billion);*

- *Financing of 2014-established women's groups.* Despite on-going discussions held between the PMPMD PMU and LGF, the MoF and the MoL monitoring the EGF and the SMEsDF, no concrete arrangement has been found with regards to the financing of PMPMD-supported women's groups that also constitute the core eligible beneficiaries of the EGF, hence the PMPMD credit lines to finance women's groups established in 2012 and 2013. For women's groups formed in 2014 and to be financed in 2015, and on the basis of the 2013 and 2014 financing experience, *the mission recommends to tentatively reallocate from the resources allocated to the guarantee mechanism an amount of approximately USD 0.3 million (MNT 500 millions) to be extended to participating commercial banks in the form of a credit line for State Bank and a refinancing line for Capital Bank, to be used to finance women's groups in 2015.* The final amount to be used for the credit line will depend on: (i) number of women's groups effectively formed and accepted for financing by participating commercial banks, (ii) average amount of loan requested by women's groups; (iii) amount accumulated in both PMPMD Revolving Funds, (iv) number of women's groups that can be financed by the EGF, and (v) number of women's groups that can be financed by the *Soum* Development Fund (without benefiting from the guarantee of the PMPMD LGF as these loans are not extended through commercial banks). The mission reminds that a preliminary agreement has been reached by the mission on a pilot basis with the MoL based on an increased ceiling for loans extended by commercial banks with resources from EGF (up to MNT 10 million against MNT 5 million currently) in exchange for the PMPMD LGF to extend guarantee for all loans funded by EGF. Should this agreement become effective, there will be no need for a reallocation of resources from the guarantee facility to credit lines. Since the credit line will only be used from May 2015 onward to finance women's groups formed from September 2014, the MoF should engage dialogue with MoL on the above-mentioned issue and submit IFAD with a solution for the financing of these new women's groups (alternative 1 being the financing by MoL/EGF while alternative 2 is the financing under a new credit line, the resources of which will be drawn from the guarantee resources);
- *Grace period.* . In most cases, women's groups' activities' cash-flow situation is tensed except for petty trade activity. In that respect, *the mission recommends participating banks to award a grace period for principal repayment on the basis of a thorough cash-flow analysis for the first months of women's groups' activities (the SLA stipulates that grace period could cover up to 12 months);*
- *Additional collateral to be requested by participating commercial banks.* Discussions with stakeholders involved in women's groups financing have highlighted some dysfunctions in the implementation of the PMPMD LGF guarantee contracts. Both the State Bank and Capital Bank, when extending loans to PMPMD-supported women's groups, request, on top of the guarantee provided by the PMPMD Loan Guarantee Facility (equivalent to 80% of the loan amount), collaterals and guarantees the amount of which ranges from 20 to 130% of the loan amount. The mission reminded participating banks that the PMPMD LGF guarantee is one of substitution and not one of addition. In that respect, the market value of collaterals and guarantees requested by participating banks in addition to the PMPMD LGF guarantee should be comprised between 20 and 40% of the value of the loan. The mission identified during its discussions with branch managers at *aimag* and *soum* levels that information on the PMPMD LGF guarantee mechanism and contract has not been effectively communicated by the participating banks' headquarter to their local branches. The mission also identified that due to a lack of knowledge, local branch managers do not understand the value of the PMPMD LGF guarantee and prefer requesting tangible collaterals such as land, building and in some cases movable assets. Considering the novelty of guarantee schemes in Mongolia, *the mission recommends: (i) to amend guarantee contracts signed with participating banks to reflect the maximum market value of collaterals and guarantees to be comprised between 20 and 40% of the loan amount when extending a loan to a PMPMD-supported women's group; (ii) to request from participating banks the immediate release of collaterals in excess of the amount stated in the revised guarantee contracts; (iii) the PMPMD LGF Unit to participate in training sessions organized by banks for their branch staff and present the overall project and specifics of the*

PMPMD LGF guarantee scheme, and (iv) the participating banks at local and headquarter levels to participate in the training of PMPMD-supported beneficiaries (especially with regards to business planning and financial projections as well as financial and cash-flow management);

- *Further capacity building of women's groups' members.* Discussions with women's groups having or not benefited from a project's loan as well as with branch managers of participating banks have highlighted the necessity to further provide training to women's groups especially with regards to financial management, bookkeeping, business planning and cash-flow management. *The mission recommends these trainings to be provided to newly formed women's groups by the UMPSC in collaboration with participating commercial banks.*

17. **Impact.** In general, impact of PMPMD activities is seen as positive by almost all women's groups. Household's income has increased, production is of better quality and new markets have been found. Some recommendations have been made by women's groups during the Annual Outcome Survey and during the two knowledge-sharing workshops:

- *Proper workplaces.* The major remaining problem faced by women's groups is the lack of proper workplace. Most groups' members are working at home, thus preventing a good quality of production. In that respect, the mission would like to commend the initiative taken by some *soum* and *aimag* governors to rehabilitate governmental building into proper workplaces for women's groups supported under the project and other small and micro-entrepreneurs. This initiative shows the level of commitment of these governors and how the project and the local government should be working together for the benefit of poor households and entrepreneurs. *The mission recommends the UMPSC and the PMU to properly document this initiative and to expose it to other soum and aimag governors with a view to generalize this initiative.* It has also to be noted that the 'Technological Park' initiative carried out by the Ministry of Economic Development includes the construction/rehabilitation of workplaces in each and every *soum* across the country. This is essential for the development of a network of small and micro-enterprises at local level that can assist poor households and entrepreneurs to increase their income;
- *Increased loan size.* Some women's groups complain on the too small amount of the loan extended by participating commercial banks with PMPMD resources, arguing that even MNT 1 million is too small to implement a sustainable income generating activity and that several cycles of loan would be necessary to reach sustainability. Since women's groups under the project are eligible to only one loan, it is therefore difficult for them to ensure the sustainability of their activities, also because access to loans from commercial banks is still problematic after one loan. The mission reminds women's groups that 360 women's groups will be financed from PMPMD resources and that repayments from these loans will constitute a revolving fund at the level of participating banks to be used for similar lending activity. Since loans are in general for two to three-year duration, first groups established in 2012 and financed in 2013 would have access to revolving fund at participating commercial banks' level once all 360 planned women's groups have been financed. In that respect, there should not be any problem for groups to access repeat loans to ensure sustainability to their activity. However, the mission doesn't agree to increase the loan size for the women's group (remaining at MNT 10 million per group);
- *Further provision of marketing training and assistance.* Despite impressive achievements at local level, production of women's groups still has a limited outreach outside of *soum* (with some rare exceptions). *The mission recommends to further providing marketing training and assistance to develop market linkages with national buyers and/or processors.* In addition, *the mission recommends the creation of a specific webpage on the UMPSC website for production of PMPMD-supported women's groups. This webpage would show products and give contact details of women's groups.* Finally, *the mission also recommends a more frequent participation of PMPMD-supported women's groups in local and national fairs and exhibitions. The UMPSC should assist women's groups with products of good quality to open some stands in department stores and souvenirs shops. The UMPSC should also liaise with Martha and Mary Mongolia, a*

company that is promoting handicraft and souvenirs made by women's groups across Mongolia.

18. Considering the overall success of women's groups formation activities and achievements so far, *the mission recommends to increase the number of women's groups to be established in 2014 from 100 originally planned to 150, subject to availability of project funds.* This will bring the total number of women's groups supported under the PMPMD to 410 groups including around 4,000 members.

Guarantee Facility

19. Guarantee agreements/contracts have been signed by the PMPMD LGF with seven commercial banks: State Bank, Capital Bank, Golomt Bank, Ulaanbaatar City Bank, Trade and Development Bank, Chinggis Bank, and XacBank. The capitalization of the PMPMD LGF by the programme amounts to USD 0.9 million (MNT 1.42 billion) representing 30.8% of the total revised budget allocation. To date, a global portfolio guarantee for loans provided to women's groups has been extended to the first two banks only including 95 guarantees covering loans extended to PMPMD-supported women's groups for a total amount of MNT 822.7 million. To date and considering the repayments already done, the maximum liability of the PMPMD LGF amounts to around MNT 600 million (equivalent to USD 0.33 million).

20. As previously mentioned, the main problem related to the implementation of the PMPMD LGF guarantee mechanism was the value of the additional collateral requested by commercial banks on top of the guarantee provided by the PMPMD LGF (see above).

21. ***PMPMD LGF institutional and operational implementation.*** The PMPMD LGF is an integral part of the PMPMD PMU, created by Order of the State Secretary of MoF dated March 1st, 2013 while its Technical Committee has been created by order of the Chairman of the Project Steering Committee dated April 11th, 2013. To further integrate the PMPMD LGF in the Government of Mongolia's policies and to ensure full compliance with the Law of Mongolia on Credit Guarantee Fund, hence avoiding potential legal and/or regulatory risks, *the mission recommends: (i) to enlarge the membership of the PMPMD LGF Technical Committee to include the following additional members: (a) one representative from the Ministry of Economic Development; (b) one representative from the bankers' association, and (c) one lawyer (preferably from the Central Bank Legal Unit); (ii) to admit a representative from the State Guarantee Fund as observer, and (iii) to modify the responsibilities and modalities for committing and signing guarantees and guarantee contracts. Based on a thorough analysis carried out by the PMPMD LGF unit, the PMPMD LGF Technical Committee should review each individual guarantee and guarantee contract and make appropriate recommendations to the MoF State Secretary who will be vested with the responsibility of signing guarantees/guarantee contracts or who will have the possibility to delegate the signing authority to his mandated.*

22. As the PMPMD LGF Unit is an integral part of the PMPMD PMU, *the mission recommends that the PMPMD LGF Unit should submit all activity and financial reports on transactions and operations carried out by the PMPMD LGF Unit (credit line, guarantee issuance and operational costs) for the PMU to consolidate them in its financial statements and for reporting purposes.* In that respect, *the mission also recommends that a meeting be convened at the earliest possible moment including representatives of MoF, MoIA, Auditor General and FRC to determine the most appropriate procedure and relevant signatories for the approval of PMPMD LGF guarantee contracts, pay-outs and operating expenses, as well as the legal authority for the establishment of the TC (the PMPMD LGF TC might be reinstalled with another Order of the State Secretary of Ministry of Finance).*

23. To facilitate the monitoring of its activities, the PMPMD LGF Unit requires specific tailored-made software enabling the monitoring of its activities and performances with regards to the extension of credit lines and issuance of guarantees. *The mission recommends the submission of a proper budget by PMPMD LGF for the procurement of basic database software available in Mongolia and the procurement of a local service provider to fine-tune the database to the requirements and activities of the PMPMD LGF operations.* To facilitate the future merger, *the mission recommends the PMPMD*

LGF to discuss the proper software development with the SGF. The software and the service provider should be procured before the end of August 2014.

24. The PMPMD LGF Unit is currently composed of 2 staff: the Unit Manager and a Unit Officer. Considering the necessary collaboration with the State Guarantee Fund especially in terms of training of participating bank's staff at both headquarter and local levels, training of entrepreneurs benefiting from a guarantee, and developing an awareness campaign on guarantee issues, *the mission recommends to maintain the PMPMD LGF Unit staff at its current level* (any additional need for new staff should be properly documented in light of projected activity and collaboration with SGF, subject to availability of income flows and IFAD concurrence). An agreement should be signed between the State Guarantee Fund and the PMPMD LGF Unit for the participation of the latter in all training sessions organized by the State Guarantee Fund. *The mission also recommends expediting the procurement of the PMPMD LGF Unit vehicle.* Under the supervision of the PMPMD PMU Director, this vehicle is to be used by the PMPMD LGF Unit staff for its official activities related to guarantees and credit lines and by the Value Chain and SMEs Development coordinator for the monitoring of her activities in the field. To the extent possible, *the mission recommends joint missions to be organized between the LGF Unit staff and the Value Chain Coordinator to minimize operating costs.*

25. To ensure compliance with the Law of Mongolia on Credit Guarantee Fund and compliance with international financial best practices, *the mission recommends the signature of a Memorandum of Understanding between the MoF and the FRC on the PMPMD LGF outlining the reporting, monitoring, and supervision and auditing of the PMPMD LGF operations.* In addition, the mission reminds that the LGF Unit should prepare a strategy and plan for investing LGF funds by end of July for review by Technical Committee and IFAD before final approval by the Financial Regulatory Commission. The operating expenses of the LGF unit should be covered by the revenues of the LGF investment as soon as possible, to ensure long term sustainability of the LGF operations.

26. **State Guarantee Fund.** The State Guarantee Fund's main objective is to extend individual guarantees (covering up to 60% of the requested loan amount) to SMEs with deficient collateral, when financed by qualified banks and financial institutions. This objective overlaps with the PMPMD LGF's one that also includes the issuance of guarantees for SMEs with deficient collateral in specific value chains. While the issuance of guarantees for SMEs in PMPMD area should remain an objective of the PMPMD in its target area, the mission considers that the issuance of guarantees to SMEs outside PMPMD targeted *aimags* is creating confusion among rural population and financial market disturbance. On the other hand, commercial banks are extending loans amounting to maximum MNT 5 million (USD 2,700 - half the maximum amount of loans extended to PMPMD-supported women's groups) with resources provided by the Employment Generation Fund (EGF).

27. Considering IFAD traditional target population consisting of poor rural households and entrepreneurs, and the harmful competition between the PMPMD LGF and the SGF on a limited SMEs market across Mongolia, *the mission recommends the PMPMD LGF to stop issuing its guarantees to SMEs outside the PMPMD-targeted aimags (with the exception of SMEs included in the value chain development and strengthening sub-component - see below) and to issue guarantees to beneficiaries of bank loans extended across the whole country from resources allocated by the EGF.* The mission also reminds that loans extended by Soum Development Committees are not eligible to the PMPMD LGF guarantee facility as these loans are not extended through the financial sector.

28. As at the date of the MTR mission, the annual allocation per aimag of resources from the Employment Generation Fund amounts to MNT 1 billion. Considering a default rate of about 10% (very conservative considering the current repayment rate observed), a risk coverage of 80% by the PMPMD LGF unit and a final loan loss rate of 20%, the amount to be allocated for the coverage of the annual loan portfolio extended by commercial banks from resources from the Employment Generation Fund would reach MNT 336 million (i.e. USD 0.19 million).

SMEs development and strengthening

29. Significant improvements are to be noted in the implementation of SMEs and Value Chains development and strengthening sub-components since the recruitment of the Value Chain Coordinator.

30. Eleven SMEs, 3 cooperatives (ex PMPMD-supported women's groups having graduated into a cooperative) and one individual business have been selected by the VC coordinator and approved by the MoAI TWG for Value Chains to enter in the SMEs development sub-component. Activities carried out by these SMEs mainly include: milk processing, wool processing, crop processing, vegetable production, tea processing and meat processing. In order for these 15 SMEs and cooperatives to benefit from better terms and conditions, their loan applications have been simultaneously introduced to JICA Two-Step loan project and to commercial banks participating in the JICA project. 9 SMEs and cooperatives have already received a support letter from JICA, 1 SME has decided to postpone its request for a loan to 2015; the single-shareholder enterprise was rejected by JICA (not meeting JICA requirements and cannot be financed), and 4 are under review.

31. The main data for these 15 selected SMEs and cooperatives include: (i) required financing amounting to USD 3.1 million of which USD 2.2 million (MNT 4.0 billion) in the form of a bank loan; (ii) over 1,000 additional suppliers (smallholders, small herders, small producers) to be included in the development of these SMEs/cooperatives, and (iii) average increase in net profit per investment of MNT 349 million. As per the guarantee contract, the PMPMD LGF guarantee to be provided to commercial banks would amount to MNT 2.0 billion (USD 1.1 million). In addition to the financial support, the programme will finance: (a) training and capacity building of SMEs' management and staff for a total amount of approximately MNT 76 million (while approximately MNT 48 million would be additionally financed by SMEs), and (b) training and capacity building of SMEs' suppliers evaluated at MNT 63 million.

32. The objective for 2015 and 2016 is the provision of support to 15 additional SMEs per year. For the selection of these additional 15 SMEs per year, *the mission recommends the Value Chain Coordinator to issue a call for proposals (one each year) for the selection of 15 SMEs/cooperatives*. These calls for proposals will be distributed in each PMPMD *aimag* and *soum* through the delocalized representations of the MoAI, the delocalized EGF and SMEsDF offices and MoL representations, all commercial banks having signed a guarantee agreement with the PMPMD LGF Unit, *soum* and *bag* governors' offices, as well as through *soum* facilitators working for the two NGOs implementing PMPMD activities.

33. The call for proposals should be finalized by the end of August 2014, proposals (technical and financial) should be submitted to the PMPMD PMU for a first screening by the end of October 2014 while the final selection of the 15 SMEs by both the MoAI TWG for VCs and commercial banks (and JICA Two-Step Loan project as the source of funds) should be achieved by the end of 2014. The finalization of the support plan (training and capacity building for both suppliers and SMEs/cooperatives staff) to be financed under the PMPMD should be completed by the PMU VC Coordinator by the first quarter of 2015. Commercial bank loans and PMPMD LGF individual guarantees should be extended during the second quarter of 2015 and the provision of training, capacity building and technical assistance should also start during the second quarter of 2015.

34. The main criteria for the selection of SMEs will consist, apart from the project's profitability and capacity to pay back its loan, in the number of incremental poor households (herders, women, producers) that will be included in the supply chain of the SME, the investment cost per incremental poor households, as well as the incremental benefit to be expected for each poor household.

National Value Chains development and strengthening

35. This activity is planned to start after the MTR. Considering the limited time before project's completion, activities implemented under the national value chain development and strengthening sub-component should focus on strengthening supply chains within these selected value chains to ensure the inclusion of poor households (producers, suppliers, herders). The project should work

closely with national organizations regrouping producers, suppliers and/or herders to maximize the impact across the country. The project should also be in line with the GoM priorities in terms of value chain development and more specifically the priorities of the MoIA, the MoED and the MoEGD.

36. Possible national value chains to be analyzed for project support include, non-exhaustive list: (i) dairy products and milk processing, especially production/marketing of Buryat community dairy products that have a distinctive niche market in and outside Mongolia; (ii) camel milk processing into beauty products; (iii) yak wool and milk processing; (iv) organic production of seabuckthorn and other berries; (v) school uniforms to be confectioned, and (vi) hide and skins processing.

37. As mentioned, the support of the project will not gear towards the global strengthening of national value chains, but will mainly focus on the development of their supply chains and the adequate measures to ensure the inclusion of poor households (smallholders, small herders, and women) into these supply chains. In that respect, the main criteria for the selection of value chains will consist of incremental number of poor households included in the supply chain and the possible creation of added value at the level of poor households (primary processing and/or storage activities). Since suppliers of selected value chains are to be found outside of the PMPMD-targeted aimags and soums, the Value Chain Coordinator will work closely with national organizations regrouping all stakeholders of selected value chains to define a roadmap for the strengthening of supply chains, promoting forward contracts among value chain stakeholders, and identify alternative financial instruments more in line with production cycles and financial flows among stakeholders. The roadmap for the development and strengthening of supply chains within national value chains will include the following steps: (i) analysis of each above-mentioned national value chain (review of existing documentation, SWOT analysis), to be completed by October 2014; (ii) selection of up to 3 value chains by the MoIA TWG of VCs based on a proposal from the PMPMD VC coordinator (to be finalized by the end of December 2014); (iii) together with the national organizations of selected VCs stakeholders, identification of stakeholders (suppliers and enterprises) to be included in the PMPMD activities, fine-tuning of activities, elaboration of a training plan for all stakeholders (finalized by March 2015); (iv) provision of training and technical assistance and extension of financial instruments (loans and guarantees) to be started during the second quarter of 2015, and (v) based on lessons learned, elaboration of a scaling-up roadmap together with the national organizations of selected value chains (to be started in second semester 2015).

38. The MoED has developed the concept of 'Technological Park' to be implemented in each *soum*. These will rationalize activities in *soum* and *aimag* centers and will provide workplaces for entrepreneurs, identified as a major constraint by PMPMD-supported women's and suppliers' groups. Built under a public-private partnership (public sector providing land and financing non-productive infrastructures while private sector will develop and finance productive infrastructure and equipments), the firsts Technological Parks would be delivered by the end of 2014 in two *soums* within the PMPMD-supported *aimags*, among others. It is envisaged that productive investments (processing, storage facilities, and workplaces) would be financed by local entrepreneurs and/or jointly financed by local suppliers and national SMEs or large companies. Such a partnership will increase the collaboration between suppliers and national level processors/buyers, offer primary processing activities at *soum* level (increasing the added value at *soum* level for suppliers), and ensure regular supply for national level enterprises. However, the level of poverty existing in most *soums* (especially PMPMD-selected *soums*) makes the capitalization of these investments by the local population highly questionable, especially with regards to high interest rates on loans extended by commercial banks. These local entrepreneurs/suppliers (or suppliers' cooperatives) should access loans with concessional terms and conditions as well as the SGF guarantee.

39. However, on a pilot basis, the project could finance the capitalization of these productive investments (equity financing) on behalf of the local suppliers/entrepreneurs. Part of dividends annually distributed to local suppliers/entrepreneurs will allow them to buy the shares held by the PMPMD LGF in each company the asset of which is composed of a productive investment. Purchase price of PMPMD LGF shares held in local companies would be attractive so as to facilitate a rapid buy-out.

40. One possibility for this type of investment would be to have the productive investment owned by a private company (Limited Liability Company or company by shares) specifically created for that purpose. The shares of that company will be owned by a private investor and by the local community (or by some entrepreneurs from the local community). Local community members would be grouped in a legal entity such as a cooperative. The investment will be financed through a mix of equity and debt financing. Equity financing will be provided by private sector and by the project on behalf of the legal entity regrouping the local community members. Debt financing will be extended by a commercial bank that will benefit from the PMPMD LGF guarantee. The level of each financing instrument will be based on a thorough study of the production cycle and cash-flow, repayment capacity, and investment cost. Tentatively, equity could represent 60% of the investment while debt financing could represent 40% of the total investment cost. The breakdown between the private sector and the local community members' legal entity could be tentatively 70% - 30% respectively. The project cannot finance directly the share of the private company owning the asset as it has no legal capacity to do so. The project will finance the shares of the company through the PMPMD LGF Unit which is a financial institution legally recognized and registered in Mongolia. The PMPMD LGF Unit is not going to keep the shares of the private company forever. The legal entity regrouping the community members and the PMPMD LGF Unit will negotiate the breakdown of the dividends earned from the private company between them. Part of the dividends allocated to the legal entity regrouping the community members will be used to buy the shares of the private company held by the PMPMD LGF Unit. After a few years, the legal entity regrouping the community members will have bought the totality of the shares held by the PMPMD LGF Unit in the private company. Both parties will agree at the capitalization of the private company on a value of its shares. This value should be attractive so that it will be easier for the legal entity regrouping the community members to buy the shares (for example, the agreed price to purchase the shares could be equal to their nominal value or to their nominal value plus a fraction of the retained earnings i.e. profit not distributed and kept in the company). Finally a tri-partite agreement will also be signed between the private investor, the legal entity regrouping the community members and the PMPMD LGF Unit to ensure that the private investor will not buy back the shares of the PMPMD LGF Unit and will not buy the shares of the legal entity regrouping the community members at least as long as the PMPMD LGF Unit is still holding shares in the private company's equity.

41. *The mission recommends that the PMU VC Coordinator works closely with the MoED to develop a roadmap for such a pilot investment.* It will include: (i) identification of adequate investments to be considered; (ii) analysis of costs and budget related to such an investment; (iii) drafting financial projections showing RoI and buy-out duration; (iv) drafting an awareness campaign for local population (suppliers/entrepreneurs) at *soum* level; (v) identification of possible national level entrepreneurs and SMEs who could co-finance selected productive investments, if necessary, and (vi) drafting a training plan for local suppliers/entrepreneurs (legal aspects, technical training, business management, company management, marketing, quality control, financial and financing management) and define responsibilities and roles of service providers and of co-investors. The revised allocation of resources for PMPMD activities following the MTR will include a specific envelope for this investment.

Agreed action	Responsibility	Agreed date
To enlarge the MoF TC for the LGF by including one representative from MoED, one representative from bankers' association, one lawyer (preferably from Central Bank Legal Unit)	MoF	July 31 st , 2014
To admit SGF representative as observer of MoF TC	MoF	July 31 st , 2014
To review role and responsibilities of MoF TC and MoF State Secretary	MoF	July 31 st , 2014
To consolidate financial transactions of PMPMD LGF in PMPMD PMU financial statements	PMU	July 31 st , 2014
To convene a meeting with MoF, MoIA, Auditor General and FRC to analyse and identify the most appropriate procedures and signatories for LGF activities	MoF, MoIA, Auditor General, FRC	Immediately
To procure a basic database software and a local service provider to fine-tune the database according to PMPMD LGF activities	PMU & LGF	August 2014
To maintain PMPMD LGF staff at current level	PMU, LGF, MoF	Immediately
To expedite procurement of vehicle allocated to PMPMD LGF Unit and PMU VC Coordinator	PMU & LGF	Immediately
To organize joint field missions between PMPMD LGF Unit staff and PMU VC Coordinator	PMU & LGF	Immediately
To amend contracts to reflect on maximum collaterals to be taken by banks in addition to PMPMD LGF guarantee	LGF	Immediately
To ensure retroactive compliance of guarantee requirements	LGF - Commercial Banks	August 2014
To participate in training sessions organized by banks for their branch level	LGF	September 2014
To have bank staff to participate in training of PMPMD-supported beneficiaries	Banks	Immediately
To award grace period on a case-by-case basis	Banks	Immediately
To assist in the drafting of a MoU between MoF and the FRC for the monitoring, supervision and audit of the PMPMD LGF	LGF, MoF, FRC	August 2014
To suspend issuance of guarantees for SMEs outside project aimags and focus on guarantees for beneficiaries of loans funded by EGF	LGF, MoF & MoL/EGF	Immediately
To participate in training sessions organized by banks for their branch level	LGF	September 2014
To have bank staff to participate in training of PMPMD-supported beneficiaries	Banks	Immediately
To expedite the transfer of the second credit line to banks	PMU - LGF	Immediately
To further train women's groups in financial management, bookkeeping, business planning and cash-flow management in collaboration with SGF	UMPSC	September 2014
To further promote transformation of women's groups into cooperatives	UMPSC	Immediately
To estimate resources needed for financing the third batch of women's groups considering: revolving fund, EGF and SDF financing	PMU, LGF & UMPSC	April 2015
To issue call for proposals to identify 15 new SMEs to include in project activities	PMU	August 2014
To update/review value chain analysis for pre-selected value chains	PMU	October 2014
To select up to 3 national value chains	PMU & MoIA TWG on VC	December 2014
To further implement roadmap for national VC development	PMU and MoIA TWG on VC	June 2015
To develop a roadmap for a pilot investment in technological park	PMU & MoED	December 2014

**DETERMINATION OF PMPMD LGF MAXIMUM LIABILITY
AND NECESSARY RESOURCES**

1. The table below illustrates the minimum necessary resources and maximum liability for the PMPMD Loan Guarantee Facility.
2. The table has been elaborated based on the following activities:
 - Guarantees extended to participating commercial banks for loans extended to women's groups. An incremental 50 women's groups to be formed in 2014 and financed in 2015 has been considered in the calculation following the recommendation from the MTR mission;
 - Guarantees extended to participating commercial banks when extending loans using the Employment Generation Fund resources in all 21 *aimags* in Mongolia;
 - Guarantees extended to participating commercial banks when lending to the 45 micro and small enterprises selected under the Market Development activities. The loan amount for the 30 still-to-be-selected MSEs is based on the average loan amount for the 15 first selected MSEs;
 - Guarantees extended to participating commercial banks when lending to enterprises within the 3 selected national value chains.
3. The PMPMD LGF maximum liability estimated for the global portfolio of loans guaranteed amounts to USD 15.3 million.
4. Considering a prudential leverage of 8:1, the necessary resources to capitalize the PMPMD LGF amount to USD 1.9 million. With an amount of USD 0.9 million already disbursed (while the budget line shows an amount of USD 1.0 million), the necessary additional resources to be allocated to the PMPMD LGF amount to USD 0.9 million and USD 1.0 million (balance of the current budget line plus the additional resources) should be immediately transfer onto the account of the PMPMD LGF unit.
5. With total accumulated resources of USD 1.9 million invested in fully secured governmental financial instruments, the revenues generated by this investment is sufficient to cover PMPMD LGF Unit's operating expenses. The balance of revenues earned by the PMPMD LGF should then be capitalized as additional guarantee resources for the PMPMD LGF activities.

Items		2014	2015	2016	2017	Total
A. Women's Groups						
# of women's groups to be financed		150	150			300
Average amount per group (in MNT)	10.000.000					
Financial resources needed		1.500.000.000	1.500.000.000			3.000.000.000
Loans extended in 2013	795.200.000					-
Repayments loans extended in 2013		265.066.667	265.066.667	265.066.667		795.200.000
Repayments loans extended in 2014			500.000.000	500.000.000	500.000.000	1.500.000.000
Repayments loans extended in 2015				500.000.000	500.000.000	1.000.000.000
Outstanding loan portfolio at beginning of year		2.030.133.333	2.765.066.667	2.000.000.000	500.000.000	-
PMPMD LGF Guarantee coverage	80%					
Default rate	5%					
Final loan loss rate	50%					
PMPMD LGF Maximum liability (MNT)		1.624.106.667	2.212.053.333	1.600.000.000	400.000.000	-
PMPMD LGF Financial resources to cover risk (MNT)		40.602.667	55.301.333	40.000.000	10.000.000	-
MNT/USD exchange rate	1.800					
PMPMD LGF Maximum liability (USD)		902.281	1.228.919	888.889	222.222	-
PMPMD LGF Financial resources to cover risk (USD)		22.557	30.723	22.222	5.556	-
B. Loans Extended from EGF resources						
# of aimags	21					
Yearly budgetary allocation	1.000.000.000					
Loans extended		21.000.000.000	21.000.000.000	21.000.000.000	21.000.000.000	
PMPMD LGF Guarantee coverage	80%					
Default rate	5%					
Final loan loss rate	50%					
PMPMD LGF Maximum liability (MNT)		16.800.000.000	16.800.000.000	16.800.000.000	16.800.000.000	
PMPMD LGF Financial resources to cover risk (MNT)		420.000.000	420.000.000	420.000.000	420.000.000	
PMPMD LGF Maximum liability (USD)		9.333.333	9.333.333	9.333.333	9.333.333	
PMPMD LGF Financial resources to cover risk (USD)		233.333	233.333	233.333	233.333	
C. Loans extended to MSEs						
# of MSEs financed		15	15	15		
Average loan amount per MSE	270.000.000					
Loan disbursements		4.050.000.000	4.050.000.000	4.050.000.000		
Loan repayments (over 3 years)		1.350.000.000	2.700.000.000	4.050.000.000	2.700.000.000	1.350.000.000
Outstanding loan portfolio		2.700.000.000	4.050.000.000	4.050.000.000	1.350.000.000	-
PMPMD LGF Guarantee coverage	50%					
Default rate	20%					
Final loan loss rate	50%					
PMPMD LGF Maximum liability (MNT)		2.025.000.000	6.750.000.000	8.100.000.000	4.050.000.000	1.350.000.000
PMPMD LGF Financial resources to cover risk (MNT)		202.500.000	135.000.000	202.500.000	202.500.000	67.500.000
PMPMD LGF Maximum liability (USD)		1.125.000	3.750.000	4.500.000	2.250.000	750.000
PMPMD LGF Financial resources to cover risk (USD)		112.500	75.000	112.500	112.500	37.500
D. Loans Extended within Value Chains						
# of value chain stakeholders financed			20			
Average loan amount per value chain stakeholder	135.000.000					
Loan disbursement			2.700.000.000			
Loan repayments			900.000.000	900.000.000	900.000.000	
Outstanding loan portfolio			1.800.000.000	900.000.000	-	-
PMPMD LGF Guarantee coverage	60%					
Default rate	20%					
Final loan loss rate	50%					
PMPMD LGF Maximum liability (MNT)			1.620.000.000	1.080.000.000	540.000.000	-
PMPMD LGF Financial resources to cover risk (MNT)			162.000.000	108.000.000	54.000.000	-
PMPMD LGF Maximum liability (USD)			900.000	600.000	300.000	-
PMPMD LGF Financial resources to cover risk (USD)			90.000	60.000	30.000	-
Total PMPMD LGF Resources to cover risk (USD)		368.390	429.056	428.056	381.389	37.500
Total PMPMD LGF Resources to cover risk (MNT)			772.301.333			
PMPMD LGF Maximum liability		11.360.615	15.212.252	15.322.222	12.105.556	750.000
Leverage		31	35	36	32	20
Adequate leverage	12					
Resources to cover risk under adequate leverage		946.718	1.267.688	1.276.852	1.008.796	62.500
Prudential leverage	increasing	6	8	9	10	10
		1.893.436	1.901.531	1.702.469	1.210.556	75.000

Working Paper 2: Pasture Management and Climate Change Adaptation

Introduction

1. 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 objectives of the component for Pasture Management and Climate Change Adaptation are to support effective pasture management organizations of herders and their pasture land management plans through capacity development and investments that strengthen the resilience to climate change impacts and adaptive capacity to climate change. The expected outcomes of the component are: a) Effective grassroots organizations for pasture management organizations and for income generation, b) Completed investments to implement the pasture management plans (to increase resilience), c) Improved knowledge (to adapt to climate change impacts) and enabling environment (to reduce vulnerability to climate change impacts), d) Income generation and poverty reduction improved, e) Effective and efficient Component Management.

2. Field trips to Tsentsersmandal and Delgerhaan soums of Hentii, and to Hubsgul aimag, Tsagaan-Uul and Burentogtoh soums were undertaken between June 18 and 26, 2014. During the field trips, semi-structured interviews with key informants and focus groups were used as a methodology. A list of questions and issues prepared for meetings and interviews based on the TOR for pasture management component. Secondary data on pasture management component was collected through PMU and available project reports.

Implementation Progress and Recommendations

3. **Logframe revision.** Due to some inconsistency between the logframe and project design, the number of sub-components and their overlapping areas were not clearly defined. The MTR recommends to read the project description as the following and develop the AWPBs accordingly:

Subcomponent 1.1 Pasture Management Planning

Activity 1.1.1 Formation of PHGs

Activity 1.1.2 Soum-level Pasture Management Plans (PMPs)

Subcomponent 1.2. Strengthening Pasture Management Institution

Activity 1.2.1 Capacity building for pasture management

Activity 1.2.2 Knowledge management on pasture conditions and weather

Activity 1.2.3 Knowledge management on Climate Change

Activity 1.2.4 Livestock veterinary and breeding service

Activity 1.2.5 Strengthening the role of PHGs in organizing cooperatives

Subcomponent 1.3 Implementation of PMPs and CCA investment

Activity 1.3.1 Investment for PHGs based on bag- and soum-level planning

Activity 1.3.2 Investment for bag- and soum- land management plans

4. Overall, joint management of pastures was improved and attitude of herders and local authorities to collective pasture management has been changed in project target aimags. The interviews and observations in general confirmed that improvement of joint management of pastureland is seen in all target soums due to project interventions such as establishing herder groups, executing PMPs, trainings and investments. Group work and PMPs encouraged herders to manage the pastureland collectively in appropriate manner, well construction increased access to

unused pastures and animal water points, trainings improved herders' knowledge on better pasture management.

5. **Herder groups' PMPs are integrated and actively enforced by local government:** Although the project assisted development of herder groups' PMPs, the integration of group plans into *soum* plan and their enforcement is not fully supported by the local governments. Most PMPs were not formally adopted by the local governments, and herder group pasture boundaries were not determined which lead to disagreement or dispute between project herder groups and non project herders. During the field mission, *soum* governors were repeatedly expressed that PMPs is formalized through participatory meetings at *bag* level and consolidating with *soum* pasture management plan that further approved by the *Soum* Parliament. Also they noted importance of coverage of all herders of *soum* by the project.

6. As the local government has no legal rights to determine group boundaries and approve herder groups' PMPs, integration of group plans with *bag* level plans is essential. Formal annual pasture management draft plan is prepared in August every year at the *soum* level in accordance with the Mongolian land law and regulations; *bag* meetings are taken place to collect proposals from herders and the *soum* working group consolidated proposals and draft plan is submitted to local parliament for approval. The working group responsible for annual land management planning headed by the vice governor of *soum* is usually established at *soum* level. The group consists of land manager (technically leads the whole process), officer responsible for pasture management, environmental officer and *bag* governors.

7. In planning process, *bag* leaders play key roles to ensure participation of all *bag* herders. During the planning process, the project supported herders well presented in *bag* meetings however other herders' participation is low which negatively affect agreed actions amongst project group members and their plans are not implemented. Interviews with herders confirm that non project herders do not recognize groups' agreement and often breach it. *Bag* governors lack time, capacity and budget to involve all herders to discuss pasture issues in the *bag* meetings. All target *soums* have reportedly allocated some budget from the Local Development Funds for pasture management purposes such as rehabilitating and constructing broken wells and placing settings for predatory birds to control rodents.

8. To date, there is no group has pasture user rights contract as planned with the *soum* government. It seems that the local governments are not willing to have contracts between the local government and herder groups. Reasons for that include: creates disputes over pasture land, annual land management plan can address it and no clear government regulations to grant user rights to herder groups even though the land law provides general guidance for user rights. In relation to this, there is a need change indicators regarding user rights.

9. Collective approach for pasture management is well received by the local *soum* authorities. During the field mission, the case was found that the project supported herder collective action had positive impact on pastureland use. Upon request of herder group members the *soum* authority corrected the formal decision on pasture rotation within the *soum* territory of Burentogtoh. During the field trip to Hubsgul aimag, Tsagaan Uul and Burentogtoh *soum* governors informed that *soums* have developed participatory pasture use procedure for *bag* and *soum*. The project should explore it for replication to other target *soums* and aimags.

10. Serious violations of PMPs are not reported to date, but non-projects herders do not often follow agreed actions on pastureland and complain that they need assistance from the project in the form of pastureland management and group forming training. However there is need to further to establish more groups to increase coverage of entire *soums'* pastureland area for better integration of *soum* annual land management plan and group plans and strengthen herder groups and group leaders in leadership skills as a grassroots institution and, to build better capacity to manage pastureland at *soum* and *bag* level. To extend training in pasture management to more herders beyond PHG members, training should be delivered by *Soum* officers rather than project sub-contractors to promote sustainability.

11. **Herder households better able to cope with climate change variability and extreme events.** Herder groups' capacity better to cope with climate change variability and extreme events has been improved through project activities and investments: training herders on fencing and manuring hayfields, drilling new wells, protection of springs, constructing water harvesting points, and supplying equipments which had positive impacts on better winter preparedness and capacity cope with natural extreme events such as droughts and *zud* by herder groups. Because of above-mentioned activities, herder groups' knowledge improved, grazing areas extended, prepared more hay than before, access to water points improved. It is been observed that big livestock mortality and diseases were not reported in target areas as well as losses of meat and milk yields.

It was also observed that still more training and public awareness activities are needed for climate change awareness. Hand outs should be distributed to project herders as well as non project herders within the *soum*. Pilot activities should be used as a demonstration and learning center for all *soum* herders. To do this, budgetary support should be allocated to conduct field days and organize study tours within soums and *aimag*.

12. **Establishment of PHGs and preparation of PHGs' Pasture Management Plans:** To date 120 groups (100%) have been selected and are receiving support in the form investments, trainings and cooperation with their *soum* governments on pasture land planning and improvement. Participation of women in group forming activities was well encouraged. 60 out of 120 groups have selected by the *soum* governments and project through participatory approaches. Gender is ensured and during the field visits, mission met several women herder group leaders.

13. However strengthening herder groups is still weak as an institution; more training is needed to build institutional strengths and trust of members during the rest of the project life. Interviewed herder group leaders complained that group has no legal status; distance between herders is long so very difficult to reach all members. Thus poor leadership is provided by leaders. Usually elected leaders have very small spare time to dedicate for herder group management activities because he/she has own private herds (deliver their tasks on voluntary basis), which make difficulties to manage groups properly. It is recommended that the project trains group leaders on leadership, facilitation of groups meetings, defining the simple norms on pasture management and explores ways to cover travel expenses for leaders in kind from the project resources and organizes experience sharing events during the project implementation period.

14. Currently 28 % of existing herder groups has more than 30 member households and as many as more than 70 members. To achieve effectiveness of project's efforts, the herder group's size should be maintained at the appropriate level. While several interviewees including herders, herder group leaders, *soum* facilitators and other international project staff view that a PHG with 20-30 members is most appropriate. *The mission recommends that at least the 60 newly created PHGs should maintain their size around 40 HH even if this means more than 120 PHGs are created under the project.*

15. Any cost involved for the daily task of *soum* facilitator (paid by the project) and the PHG leaders (voluntary-based) should be fully covered by the project. Although most PHG leaders accepted the role of leader with pride and full commitment despite its volunteer nature, the current system which requests leaders' own spending to fulfil leader's roles was often mentioned as a key constraint. *Soum* facilitators faced a similar difficulty when job-related expenditures such as motorbike maintenance costs need to be covered by themselves.

16. **Pasture land management planning:** To date, 60 PMPs have been developed and being integrated into *soum* pasture management plans; 60 more PMPs are in the process of development by the new herder groups selected by soums with the close guidance of the PMU. Training of new herder groups is underway. Newly selected service provider, the NGO, AGROM, is providing training for herder groups. The service provider completed training in Arhangai and Hubsgul aimags and rest aimags will receive the training in the second half of the 2014. (40 % against target of 1200) Handouts

and other materials for training are developed in close consultation with the PMU are being distributed to herder groups.

17. Training on climate change adaptation technologies will take place in second half of 2014. Curriculum is under development and discuss is going with relevant institutions. Training on veterinary and breeding is ongoing by local government technical officers to ensure the sustainability and will be completed in the second half of year.

18. As advised the last IFAD supervision mission (July 2013) that close cooperation with existing *Soum* government structures and relevant officers for pasture land planning specially the project target of approved group plans should be integrated into *soum* pasture plans will be very important aspect of the project. To ensure the participation herders of entire *soum* and existing structures, the project should assess the capacity of *soum* level and identify training needs for participating parties such as *bag* governors in participatory and pasture management approaches involved in pastureland planning process.

19. It is recommended to integrate group PMPs into *soum* pasture land plans through providing budgetary and technical support for *soum* working groups responsible *soum* pastureland planning and monitoring and; to train and provide budgetary support for *bag* governors to ensure full participation of entire *bag* and have all herders' consensus on concrete measures of pasture rotation and rest in selected *soums* on pilot basis.

20. **PHG Revolving Funds:** As of May 2014, all groups established their PHG Revolving Funds (PHGRF) and a total of MNT 148 million (47.2%) has been accumulated in PHGRF out of MNT 314.8 million to be accumulated from the repayment of tractors and sprinklers supplied to 60 herder groups. Repayment of equipment is varying from one *aimag* to another - Bulgan and Arkhangai *aimags* above 50% repayment and Gobi-Altai *aimag* with a low 20%. The low demand for sprinklers (22/30 not used by PHGs) which negatively impacts on repayment rate is due to the recent good rainfalls or lack of interest in the use of sprinklers for vegetable growing. The project provided guidance to use sprinklers for irrigation of hayfields but no group is using sprinkler for the hay field irrigation.

21. So far no collective activity is financed by the PHGRF to benefit all group members. PHGRF should be used for restocking poor members of PHGs. Mission observed that in Tsagaan-Uul *soum* of Hubsgul *aimag soum* Local Development Fund is used for restocking purposes, however the fund can not address all poor herders (one herder per *bag*). As of May 2014, a total of MNT106.3 million has been distributed to 185 members of groups as a loan. Currently repayments amount to approx. MNT 3 million. The mission also observed that the management of PHGRF creates additional workload for PHG leaders who are working on a voluntary basis with travels for each loan to *soum* centre on their personnel expenses because leaders are required to provide a second signature to release the loan. A short-term consultant is recruited to establish and monitoring the use of PHGRFs.

22. **Cooperative development:** Interviews with herders confirmed that they are informed well about the cooperative and its establishment. It was observed that herder groups are not willing to join the cooperatives because of trust amongst members and uncertain benefits from being the member of cooperatives. It is recognized by herders that cooperatives and PHGs have distinctive objectives and require its own operational arrangement and institutional support. An attempt to transform the PHGs into cooperatives will not generate positive impacts for both. Instead, the mission highlights that a strong and active PHG is a key to the success of herder cooperatives. Where herder group members' trust is established through PHG activities are more interested in cooperatives in general and result in higher participation. The mission recommends that the project implements a pilot activity in one *soum* per *aimag* on selective basis. Currently *soum* facilitators are covering both cooperatives and PHGs, and a short-term liaison officer on temporary basis to provide assistance on information delivery and education related to cooperatives should be recruitment in support of *soum* facilitators.

23. To facilitate herder groups to become cooperatives, it is recommended that the project implements a pilot activity in one *soum* per *aimag* on selective basis. In order to do that project should employ a short-term liaison officer on temporary basis to provide assistance on information delivery,

education and etc. Currently *soum* facilitators have no time and capacity to carry out this task on cooperative promotion.

24. **Pasture condition monitoring:** For the pasture monitoring purposes, three indicators can be used by the project to measure changes in pasture conditions: pasture yields, species composition and proportion of plant species. Monitoring should be done on regular basis from mid May till August by *soum* weather officer or *soum* facilitators could be trained to collect samples and determining yield, plant composition and conduct photographic monitoring of vegetation in selected site spots on regular basis to monitor changes over the project period.

Agreed action	Responsibility	Agreed date
To elaborate a reimbursement mechanism for job-induced costs for PHGs' leaders and <i>soum</i> facilitators	PMU, MoIA and MoF	December 2014
To maintain PHGs size up to 40 members	PMU	On-going
To redraft <i>soum</i> pasture management officers' ToR and to reorganize their daily tasks	PMU, MoIA	September 2014
To initiate discussions with MoIA for the permanency of <i>soum</i> facilitators' position after project completion	PMU, MoIA	December 2014
To include innovative pasture land management techniques in appropriate training	PMU	August 2014
To include all herders in a given <i>soum</i> in training on pasture management	PMU	On-going
To develop a pasture condition monitoring scheme and periodic information shared with <i>soum</i> and bag officers and PHGs' leaders	PMU	September 2014
To organize a study tour	PMU	On-going
To ensure MoEGD leadership in CCA training provision and quality control	PMU - MoEGD	July 31 st , 2014
To contract a short-term liaison officer to assist <i>soum</i> facilitators for cooperative issues	PMU	September 2014
To submit consolidated needs assessment to IFAD	PMU	September 2014
To ensure that project investments for PHGs are in line with needs assessment outcomes and technical opinions of relevant institutions	PMU	On-going
To ensure alignment of CCA investments with bag pasture management plans	PMU	On-going
To consider additional investments subject to funds availability at <i>soum</i> level where LDF are allocated in line with <i>soum</i> land management plan	PMU	On-going
To submit report of local consultant on PHGRFs	PMU	September 2014

Working Paper 3: Procurement review

1. An IFAD Supervision Mission visited the project from 15th June to 5th July 2014. The main objective of the supervision mission is to ensure development objectives of the project is met, with a focus on: (is) assessing the implementation progress of the project, including assessment of the achievement of outputs by component and outcome indicators as per the logframe of the project; (ii) identify and remove implementation bottlenecks and constraints; and (iii) discuss and agree on a set of actions to be implemented by the project in the next twelve months.

2. The mission as part of its fiduciary responsibilities reviewed procurement undertaken by the Project and held consultation with the officials and staff of the PMU, PMPMD and the Procurement Evaluation Committee of MoIA. The review was based on assessing the implementation of the 2014 procurement plan against actual implementation, assessing the procurement packages against respective procurement processes and procedures in line with the provisions of the Mongolian Procurement Law and IFAD Procurement Guidelines.

3. The approved 2014 procurement plan if compared against actual progress establishes approximately 31% of the total budgeted procurement has been undertaken on a timely basis while 69% of the total budgeted procurement were in various stages of actions within the procurement cycle.

4. **Procurement of Vehicle for the LGF and Value Chain.** The procurement of a single unit of vehicle has been considerably delayed for over one year due to non-responsive bids. In 2014 the PMU requested that the procurement of the vehicles would be undertaken through a direct contract and this was approved by IFAD in the procurement plan limiting the budget to MNT 125,000,000. The MoIA Procurement Committee and PMU then proceed to obtain request for quotation from several prospective vehicle dealer of which a quotation was received from Munkhhada LLC for MNT 129,634,680 which was lower than the prevailing market price for the vehicle. Given the price of the vehicle was higher than the approved budget the Procurement Committee decided to negotiate the price of the vehicle to match the budget. Munkhhada LLC however indicated that they could not reduce the price offered based on the specifications requested but offered another vehicles with a lower specification (V6 engine instead of V8, petrol instead of diesel) for MNT 122,500,000 which is within the budget approved by IFAD.

5. The mission recommends that the PMU submits a request to IFAD to proceed with the procurement of vehicle from Munkhhada LLC based on the revised specification for MNT122,500,000. This would also in reducing the additional vehicle rental cost incurred due to the non-availability of the vehicle.

6. **Revision of the budget in the AWPB and Procurement Plan for the construction and rehabilitation of wells, hay fencing and fodder storage units.** The construction and rehabilitation of wells along with hay fencing and fodder storage unit have been significantly delayed as a result of non-participation of bidders due to the low budget estimated for the construction and rehabilitation of these units. The mission agreed with the suggestion of the PMU to revise the estimated budgets based on the current MOIA approved average price estimates and recommends the revised submission of the 2014 AWPB and PP incorporating the budget increases which will ensure the participation of bidder without compromising the quality of the construction of wells, hay fencing and fodder storage units.

7. The budget increases requested for contracts which have been already awarded, should be processed as amendments to the contracts clearly establishing the justification for the cost increases through the Aimag Governors Office.

8. The mission also was informed in one case for the procurement of well in Arkhangai Aimag the delay was due to the cancellation of the bid as a result of investigation carried out by MOF due to a

compliant by a losing bidder. The procurement award recommendation was not considered as MOF found evidence of errors in the evaluation process that identified that award recommendation and evaluation of the bids contained misstatement and was not adequately presented, which would have resulted in a wrongful award decision. MOF recommended that the bid would be re-advertised. The mission concludes while MOF has intervened based on a compliant, the above basically supports the fact that there are significant issues in the evaluation of bids in the Aimags as presented below.

9. The procurement and rehabilitation of new wells identifies that the procurement were packaged and carried out combining the projects funded procurement along with state budget funded procurement. A review of the bid evaluation reports for decentralized procurement of new wells for Bulgan, Gobi Altai, Khentii and Khuvsgul Aimags identify a lack of information and non-clarity. Noting the lack of clarity and information available in the bid evaluation reports for these decentralized procurement, the mission requests the Procurement Officer of the PMU, to review the compliance of bid evaluation and comparison process with established rules, strictly adhering to the evaluation criteria and selection method set out in the invitation for tender or bid document, the use of evaluation sheets, score cards, etc. by each member of the evaluation committee, proper reflection of the individual evaluations in the final scores and overall ranking of bids. The mission recommends that the PMU, Procurement Officer prepares and submits a report of analysis to IFAD clearly establishing the following information.

- a. receipt and opening of bids
- b. examination of bids
- c. identification and rejection of substantially non-responsive bids
- d. correction of arithmetical errors and currency conversion
- e. adjustment for non-material deviations
- f. evaluation of bids
- g. comparison of bids
- h. identification of the lowest evaluated responsive bid
- i. post-qualification and award recommendation

10. The PMU also requested the mission to consider the decentralization of procurement of wells, *hay fencing and fodder storage units* through the Aimag Governor's Office. The mission agrees with request subject to the PMU undertaking an analysis of each evaluation of bid and its details, which include the award recommendation in its files for audit and supervision mission reviews. The construction of these wells, hay fencing and fodder storage units through the Aimag Governor's Office should be undertaken in accordance with the approved construction designs and other required regulations.

11. The PMU during the course of the mission, requested IFAD to review a case of non-performance by a contractor Us Altai Company under a contract to construct 6 units of wells in Gobi Altai Aimag. The contractor only managed to deliver 3 units of wells. The PMU established a working group to assess the contract performance in 2014 and as a result agreed on a settlement with the contractor deducting MNT 2.5 million from the final contract payment. While an agreed settlement has been reached, the MOIA has requested for the blacklisting of the company by the PMU. The mission notes that the blacklisting of a contractor cannot be legally implemented by the PMU and should naturally proceed in accordance with the provision of the procurement law through the Ministry of Finance. However given that a settlement has been reached and the contractor duly penalised with a deduction of MNT 2,500,000, the mission recommends that the matter is treated as closed without engaging in any legal challenges in pursuit of the contractors blacklisting. The mission also agreed to transfer the remaining balance of payment after deducting MNT 2.5 million to the company.

12. Noting the above, the mission recommends the PMU to establishes and maintain a performance security control log to adequately monitor the contracts performance ensuring that the performance securities are adequately validated and extended when contracts are delays or

extended.

13. The Project made significant savings by opting to procure small tractors for hay making based on existing government/project framework agreements for the supply of the equipment, which provide the tractors at negotiated price lower than market price. As recommended in the 2012 mission report the project could proceed to procure additional 60 units of tractor and accessories planned in 2015 and 2016 as long as the framework agreements continues to provide these tractors at a favourable prices. In the event the comparative advantage of these framework agreement is no longer available then the mission recommends that the Project and the lead project agency pursues to purchase the remaining tractors in a single bid either through international competitive bidding or through international shopping in which economies of scale and staggered delivery could be arranged.

14. IFAD agreed to the purchase of 7 units of ecological data gathering stations in 2013 and 2014 (3 units in 2013 and 4 units in 2014) based on fact that installation of the equipment across the project area could become a good feature of our adaptation support in Mongolia. The PMU signed a contract for the supply, transportation, installation and maintenance (which includes calibration cost and human resources) with NAMEM. To date 3 units of ecological data gathering stations have been supplied based on the 2013 contract with NAMEM for MNT 68,024,406 but this equipment have not been installed in Gobi Altai Aimag. In accordance with the provision of the contract NAMEM has failed to comply with its agreed contractual term and conditions due to an overall budgetary reduction of NAMEM own resources. NAMEM was to cover the cost of the transportation and the installation of the equipment but has now requested the PMU to provide it with additional resources to cover the cost of transportation and installation of the equipment (transport cost, DSA etc for staff). The total additional budget requested by NAMEM is MNT 1,321,392 and this could be covered from the overall cost saving under the contract which amount to approximately MNT 4,796,856 MNT. The mission agreed that the proposed cost could be covered as part of the NAMEM contract subject to a revision of term and conditions of the contract.

15. During discussions held last mission with the Government Procurement Agency of Mongolia, the mission was informed that the Government of Mongolia is currently working on another revision of the Mongolian Procurement Law to introduce further amendments to that Law adopted late 2012. The Government plans to implement an e-Procurement (e-Shopping, e-Bidding) system and continues develop a national training system based on online training program; short term training program for private sector; university degree program on Procurement and providing support for training institutions.

16. The mission also values the commitment by the Director General of the Government Procurement Agency of Mongolia during the last mission to support, advice and act as a knowledge centre. The Procurement Officer of the PMU is encouraged to contact the Agency periodically to access the valuable knowledge resources within the Agency. The mission also supports the participation of the Procurement Officer in any external procurement training organised by IFAD and/or any online certification courses which would positively contribute towards the officer's profession development.

17. The mission concludes procurement actions in 2014 undertaken by the PMU is relatively in accordance with established provisions of the Mongolian Procurement Law apart from the possible inconsistencies referred in this report and it is largely consistent with IFAD Procurement Guidelines. The overall rating of procurement is maintained as moderately satisfactory (4) by the mission.

18. The following represents agreed actions to be undertaken.

Agreed action	Responsibility	Agreed date
The PMU submits a request to IFAD to proceed with the procurement of vehicle from Munkhhada LLC based on the revised specification for MNT 122,500,000	PMU, MOIA	31 July 2014
Update and submit the revised AWPB and Procurement Plan which identifies the increase/decrease in units, budgets and decentralised implementation.	PMU and MOIA	31 July 2014
PMU Procurement Officer prepares and submits a report of	PMU	31 September 2014

its analysis of the bids for the procurement of new wells for Bulgan, Gobi Altai, Khentii and Khuvsgul Aimags in 2014 PP to IFAD.		
PMU to continues to maintain a performance security control log to adequately monitor the contracts performance ensuring that the performance securities are adequately validated and extended when contracts are delays or extended	PMU	Continuous.
The PMU submits an amendment to the contract referencing the changes to the terms and conditions of the contract with NAMEM to cover the proposed cost of transportation and installation for the 3 units of ecological data gathering stations within the available budget.	PMU	By 31 September 2014
Training of Procurement Officer	PMU/GPA/IFAD	Continuous.

19. The mission thanks the PMU PMPMD, MOIA, GPA and MOF for the assistance and support provided during the course the mission in Mongolia.

PROCUREMENT PLAN FOR GOODS AND WORKS
Project Title: Project for Market and Pasture Management Development Ref:Loan-836-MN / Grant - FSS-1-MN
Project Implementation Agency: Ministry of Industry and Agriculture

STATUS AS OF (Date): Jan 02, 2014

IFAD APPROVAL DATE: Original: N/A Current: Jan 02, 2014

Thresholds: Contract Awards for goods, equipment and civil works estimated to cost USD200,000 equivalent or more requires IFAD prior review

[illegible]

	SL No.	Package No.	Review by IFAD Prior/Post	Description of Goods/Works	Estimated Cost (MNT) in '000.	Estimated Cost in USD at Exch Rate 1 USD=1500 MNT	Financing source	Method of Proc. ICB/NCF/NS/DC	Design/ Investigation/Sp ees. Completed (Date)	Final Estimate Prepared & Sanctioned (Date and Value)	Finalization of Bidding Document (Date)	IFAD's No Objection to Bidding Document (Date)**	Bids		Contract Award decided (Date/Value/ Currency)	IFAD's No Objection to Contract Award (Date)**	Contract Signed (Date/Value/ Currency)	Contract No.	Name of Contractor/Nationality & ZIP Code	** IFAD Ref. No.	Date of completion of Contract	Expenditure incurred to Date USD or Local Currency	Remarks					
	1	2		3									Invitation (Date)	Opened on (Date)														
Component-3 :																												
*PP	7		Prior	1 unit of Vehicle with general specifications:Engine size-4.6 or up; Cylinders- 6 or up, Fuel Type- Petrol; Transmission-Automatic; Traction: 4x4 for MOF Unit for Loan Guarantee Fund ²	125,000,000	83,333.30	IFAD Loan	Direct contracting /RFQ/	Jan	Jan	Jan		Feb	March			April					June	June					
R																												
A									Jan	Jan	Feb		10-mars	10-avr	Only "Munkkhada" LLC submitted the proposal. But the company submitted an invalid proposal, which was not signed and stamped. Therefore, Committee decided that the proposal of "Munkkhada" LLC was unacceptable. According to the provision 30.1.1 of Mongolian procurement law, Committee sent the recommendation to reject the tender to State Secretary of MoIA. Most likely State Secretary will reject the tender and order to the Bidding Committee to organize the next bid by direct contracting in accordance with the provision 34.1.1 of above law.													
Component 3- Total					125,000,000	83,333.30																						
Component-1 :																												
*PP	8	1	Post	3 units of New well drilling and exploration in Arkhangai aimag	56,850,000	37,900,00	IFAD Loan	Local competitive bidding	Feb	Feb	Feb		Feb	March			May					Oct	Oct					
R																												
A									Feb	Feb	Feb		Feb	March														
*PP		2	Post	3 units of New well drilling and exploration in Bulgan aimag	53,550,000	35,700,00	IFAD Loan	Local competitive bidding	Feb	Feb	Feb		Feb	March			May					Oct	Oct					
R																												
A									March	March	March		22-mars	22-avr	MNT 48,051,948		3-juin	AGG-140609/ 03-089	"Bulgan Us" LLC/Mongolian		1-oct							
*PP		3	Post	3 units of New well drilling and exploration in Gobi-Altai aimag	59,850,000	39,900,00	IFAD Loan	Local competitive bidding	Feb	Feb	Feb		Feb	March			May					Oct	Oct					
R																												
A									March	March	March		14-mars	14-avr	MNT 59,850,000		28-mai	AGG-140602/ 03-066	"Menhen tahilgs" LLC/Mongolian		1-oct							
*PP		4	Post	4 units of New well drilling and exploration in Khentii aimag	75,800,000	50,533,00	IFAD Loan	Local competitive bidding	Feb	Feb	Feb		Feb	March			May					Oct	Oct					
R																												
A									March	March	March		8-avr	8-mai	MNT 55,920,000		28-mai	AGG-140609/ 03-083	"Buyan Us" LLC/Mongolian		1-oct							
*PP	5	Post	1 unit of New well drilling and exploration in Burentogtoh soum of Khuvsgul aimag	19,950,000	13,300,00	IFAD Loan	Local competitive bidding	Feb	Feb	Feb		Feb	March			May					Oct	Oct						
R																												
A								March	March	March		25-mars	25-avr	MNT 19,950,000		22-mai	AGG-140530/ 03-086	"Khuvsgul Geology" LLC/Mongolian		1-oct								
*PP	9		Post	3 units of New well drilling and exploration in Govi-Altai aimag	60,000,000	40,000,00	IFAD Loan	Direct contracting	Feb	Feb	Feb						April					Oct	Oct					
R																												
A																												
*PP	10		Post	1 unit of New well drilling and exploration in Burentogtoh soum of Khuvsgul aimag	15,000,000	10,000,00	IFAD Loan	Direct contracting	Feb	Feb	Feb						April					Oct	Oct					
R																												
A																												
*PP	11		Post	5 units of rehabilitation of old wells and instalation of solar powered electric cable to keep the water from freezing in Tsagaan-Uul and Tsetserleg soums of Khuvsgul aimag	92,900,000	61,933.33	IFAD Loan	Local competitive bidding	Feb	Feb	Feb						April					Oct	Oct					
R																												
A																												

	SL No.	Package No.	Review by IFAD Prior/Post	Description of Goods/Works	Estimated Cost (MNT) in '000.	Estimated Cost in USD at Exch Rate 1 USD=1500 MNT	Financing source	Method of Proc. IC/B/C/N/S/DC	Design/ Investigation/Sp ees. Completed (Date)	Final Estimate Prepared & Sanctioned (Date and Value)	Finalization of Bidding Document (Date)	IFAD's No Objection to Bidding Document (Date)**	Bids		Contract Award decided (Date/Value/ Currency)	IFAD's No Objection to Contract Award (Date)**	Contract Signed (Date/Value/ Currency)	Contract No.	Name of Contractor/Nationality & ZIP Code	** IFAD Ref. No.	Date of completion of Contract	Expenditure incurred to Date USD or Local Currency	Remarks					
	1	2		3									Invitation (Date)	Opened on (Date)														
*PP	12		Post	1 unit of construction of hay fence and fodder storage for Battengel soum of Arkhangai	81.926.678	54.617,78	IFAD Loan	Local competitive bidding	March	March	March		March	April			May					Nov	Nov					
R																												
A																												
*PP	13		Post	1 unit of construction of hay fence and fodder storage for Dashinchilen soum of Bulgan aimag	81.815.981	54.543,98	IFAD Loan	Local competitive bidding	March	March	March		March	April			May					Nov	Nov					
R																												
A																												
*PP	14		Post	1 unit of construction of hay fence and fodder storage for and Delgerkhaan soum of Khentii aimag	84.655.092	56.436,72	IFAD Loan	Local competitive bidding	March	March	March		March	April			May					Nov	Nov					
R																												
A																												
*PP	15		Post	The repairment for 1 unit of used construction of hay fence and fodder storage in Tsgaan - Uul soum of Khuvsgul aimag	30.000.000	20.000,00	IFAD Loan	Local shopping	March	March	March		March	April			May					Nov	Nov					
R																												
A																												
*PP	16		Post	3 -5 units of water harvesting points in 3-5 project Aimags, including blueprint and materials (resources to be channelled to community groups)	150.000.000	100.000,00	IFAD Loan	Direct contracting (Through community groups)	March								May					Nov	Nov					
R																												
A																												
*PP	17		Post	Barbed wires for fencing hay making field. 150 hectares for all 5 project aimags or 30 hectares for per aimag	105.000.000	70.000,00	GEF grant	Direct contracting (Through community groups)	March								May					Nov	Nov					
R																												
A																												
*PP	18		Post	Wooden fence pillar, wood blank and metal wire for 30 fencing spring sources for 5 project aimags or 6 for per aimag (resources to be channelled to community groups)	24.000.000	16.000,00	GEF grant	Direct contracting (Through community groups)	March								May					Nov	Nov					
R																												
A																												
*PP	19		Post	500 units of birds posts for rodent control in Project soums	7.500.000	5.000,00	GEF grant	Direct contracting (Through community groups)	March								May					Nov	Nov					
R																												
A																												
*PP	20		Post	15 units of winter shelter for livestock in poject soums	75.000.000	50.000,00	GEF grant	Direct contracting (Through community groups)	March								May					Nov	Nov					
R																												
A																												
*PP	21		Post	5 units of rehabilitate training and information room for herders in poject aimags	7.500.000	5.000,00	GEF grant	Direct contracting (Through community groups)	March								May					Nov	Nov					
R																												
A																												
Component 1 - Total					1.081.297.751	720.864,81																						

PROCUREMENT PLAN FOR CONSULTANCIES AND TRAININGS
Project Title: Project for Market and Pasture Management Development Ref:Loan-836-MN / Grant - FSS-1-MN
Project Implementation Agency: Ministry of Industry and Agriculture

Thresholds: Contract Awards for consulting services estimated to cost USD 50,000 equivalent or more requires IFAD prior review

[illegible]

Working Paper 4: Fiduciary Aspects

Summary of Project Fiduciary Risk Assessment at Mid-Term

Overall Rating: Medium

Implementing Agency - Ministry of Industry and Agriculture

Overall. In general, the project financial management is in line with the financing agreement. The financial activities, accounting and reporting of the PMU are mostly in line with the international and national accounting standards. Internal control on the fixed assets, cash management has been kept in good order. The PMU accounting system were reliable. Government contributions are provided timely.

Organization and Staffing: M

Institutional mechanism is setup for project operations. The financial staff and PMU director at PMU remain the same from previous IFAD project. Staff with appropriate qualification/experience in place.

However recently, the amendment to the FA, the financial instrument of credit line for lending and guarantee facilities have been introduced. The mission noticed that the reporting line was not clear to all. Thus the mission clarified that according to the Financing Agreement between IFAD and Mongolia Government, Project Management Unit (PMU) is responsible for overall management, coordination, oversight, monitoring, supervision, knowledge management and evaluation. LGF is sub-unit of the PMU. Thus, a consolidated financial statements should be prepared and audited annually.

Budgeting: M

Yearly financial budgets available but the budgets were not in the accounting system. Monitoring of actual results not fully effective and some variation need stronger and consistent follow up. IFAD finance 100 % net of Taxes. 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.

Funds flow & Disbursement Arrangements: M

In general, funds flows disbursed from all financing sources to project/end-beneficiaries timely and efficiently. SA transaction fully documented. However, the project recently introduced the new Loan Guarantee Fund under the financial instruments (credit line and guarantee funds).

Flow of Credit Line/Guarantee Funds - the credit line has a separate bank account in commercial bank. The Project accountant has to transfer the funds from DA through LGF credit line Project account to the partner's banks. In order to improve the efficiency of the funds flow, the project needs to reduce the number of project accounts. The mission advised that there were inefficient funds flow for the credit line account and recommend a direct transfer to the partner's banks from DA upon meeting the disbursement conditions. Interest income in the amounts of USD 38,239.35 under the DA and USD 24,096.06 under the guarantee and credit line accounts have been accumulated. The mission reminded the Project that withholding fund to invest for the purpose earning interest violated the concessional nature of the IFAD financing. The mission recommended that the interest income

be used for the operation of the project or up scaling of the guarantee facilities

Internal Controls: H

Internal controls over project over most expenditures/assets in place but financial instruments for loan guarantee and credit line did not function effectively since it is very new in Mongolia, but follow up action are under taking.

Accounting: M

In general, the project financial management is in line with the financing agreement. The financial activities, accounting and reporting of the PMU are mostly in line with the international and national accounting standards. The Mission noticed that the chart of accounts set up in the project accounting system contained a good set of information on Expenditure Category but not on Expenditure Component.

The preparation works of for the loan guarantee facility have been completed. The project is now ready to implement the activities. However, the mission noticed that proper book keeping /according software is not in place for the financial instruments and recommended that proper credit management software to be used for book keeping of LGF guarantee and credit line lending.

Financial Reporting & Monitoring

Complete, accurate, reliable Fin. Rep. of most financing sources and uses of funds generated regularly through most of the year to monitor financial progress. Audit opinions on Financial Statements, SOE and DA unqualified and largely consistent with IFAD Audit guidelines, remedial action taken.

Internal Audit: H

Internal audit arrangements not operated for adequate scope and quality, with not appropriately qualified staff and effective.

External Audit

The audit report for the fiscal year of 2013 was submitted to IFAD within the time period specified in the Financing Agreement. The Supreme Audit Office conducted the audit by using ISA and Government Auditing Standards of the Government. The Auditors expressed an unqualified opinions on the financial statements, SOE and Designated Account. Following last year SIS recommendation on Audit report translation, the audit report this year has been translated by the Audit Office. there were several internal control issues identified and recommendations for improvement were made by the auditors.

Audit reports substantially meet IFAD standards and agreed terms of reference and represent practice mostly in line with international standards on audit.

PROJECT SUPERVISION

Financial Management Supervision – Data Sheet.

Country: Mongolia		Loan Number: L-836-MN and G-FSS-1-MN	
Project Name: PMPMD			
Executing Agency: Ministry of Agriculture & Rural Development		CPM: Youqiong Wang	
Reviewing Finance Officer: Irene Li		Date of This Review: 27 June, 2014	
Date of the previous FM supervision: Date of the last PSR prior to this rating:	FM rating in the last PSR²: N/A	FM Rating current: Medium Risk	

Topic		Rating ³	Issues / Comments/Recommendations
A. Inherent Risks			
TI, Ibrahim Index: TI Index (27) and anecdotal evidence continues to indicate High fiduciary risks in the country.			
B. Control Risks			
1. Organization and Staffing		4	
a.	Adequacy of organizational structure to meet functional needs of the project	M	Institutional mechanism is setup for project operations. The financial staff and PMU director at PMU remain the same from previous IFAD project
b.	Availability of clear job description for key project positions, including fiduciary positions.	L	Clear TORs are developed and followed
c.	Adequacy of project financial management staff (numbers and skill) matching functional needs of project.	M	Yes. FM staff is a National Chartered Accountant with prior experience with the IFAD Project.

³ Rating scale 1(Unsatisfactory) to 5 (Satisfactory)

d.	Segregation/ independence of functions for accounting, payments, procurement.	M	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.
e.	Availability and adequacy of operating manuals and guidelines for staff	M	Yes.
2. Budgeting			
a.	Timely preparation and approval of project budget, issue of budget execution warrants.	M	Yes, Budget were prepared
b.	Adequacy of Budget (including loan disbursement categories - schedule 2), including financing plan for all sources, both donors and Govt., both loans and grants.	M	Yes but budgets were not in the accounting system. IFAD finance 100 % net of Taxes. 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
c.	Availability of detailed activity plans, procurement plans, cost estimates and assumptions to support budget requests.	L	Yes
	Availability of physical progress or output indicators where applicable.	M	Yes
3 Fund flows and Disbursements / Withdrawals			
a.	Timeliness of Funds disbursed by different sources, including counterpart (set benchmarks and test sample)	L	major improvements in managing the funds flow from DA to Project Account by MOF and PMU in ensuring sufficient balances to meet funds requirements of planned activities.
b.	Efficiency of the funding channels. E.g. confirmation of funds reaching intended beneficiaries.	L	yes
c	Management of project bank accounts other than Special Accounts, if any- identify idle funds	L	budget is submitted on quarterly basis for approval and sufficient funds have been transferred from the designated account (USD) to

			the project activity account (MNT).
d.	Banking arrangement and controls (reconciliation of bank statements with financial accounts)	M	the DA reconciliation was carried only when the Project accountant had to prepare Withdrawal Applications. The Mission recommended that the Project conduct monthly reconciliations.
e.	Adequacy of controls and authorization process for use of funds (payments, transfers, Cash/Bank balance management).	M	The accounting data and accounting transactions are cross checked and finalized by internal control procedures carried out by the PMU and MOF Finance Section
f	Designated Account(s) Management, Disbursements		
	Timely preparation and accuracy of Withdrawal Applications	M	SOE thresholds adequate.
	Status on expenditures withdrawn from Special Account but not yet claimed for replenishment, including age analysis	M	Two pending withdrawal applications 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. T
	SOE thresholds		
	Disbursements profile - actual vs plans, systemic reasons for differences		Yes, All vouchers raised from the PMU have been adequately filed.
	Recovery of SA balances by loan closure.	NA	N/A
	Adequacy of documentary support for SOE disbursements, reimbursements, direct payments and Special Commitments		Yes
	Eligibility of expenditure under Legal Agreements		Yes.
4.	Internal Controls - Expenditure, Assets, Liabilities	4	Yes. The PMU has followed the accounting law of Mongolia which is consistent with international accounting standard
a.	Adherence to Project Management manuals- clarity and adequacy of decision processes and sequence of events for control functions in project implementation.	M	Yes. The Project uses accounting system named Aclous for book keeping and remains relevant for aid effectiveness.
b.	Effectiveness and efficiency of internal controls for revenue/inflows management (review audit reports)	M	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 accounting data and accounting transactions at the PMU are cross checked and finalized by internal control procedures carried out by the PMU Finance Section at monthly basis.
c.	Commitment tracking and control including comparison against allocated amounts by loan disbursement category	H	Budget is not recorded in the accounting system so no commitment control system in place
d.	Effectiveness and efficiency of IC for expenditures (full cycle from commitment, payment, receipt of good and services, approval of payments, classification, etc.) (also read audit and other reports)	M	Spot checks were conducted on the financial management documents maintained by the PMU including WAs, statements of expenditure (SOEs), and other financial records and these were found satisfactory on the whole. All vouchers raised from the PMU have been adequately filed. However, monthly bank Reconciliations was not regularly done.
e.	Effectiveness and efficiency of IC for assets/liabilities management and maintenance	M	The PMU maintains comprehensive fixed asset records showing the description, location, cost, depreciation and depreciated value of all project assets in a Fixed Assets Register. Physical verification of assets has been conducted at the PMU level annually
f.	Reliability of documentary evidence of outputs realized in project. Linkages between outputs realized and financial reports.	M	Payments has been processed timely
g.	Physical controls over cash, documents and records.	M	Yes
h.	Timely payment to suppliers and consultants (benchmark and test sample)	M	Yes
i.	Fixed Assets records	L	The PMU maintains comprehensive fixed asset records showing the description, location, cost, depreciation and depreciated value of all project assets in a

			Fixed Assets Register
j.	Legality/eligibility of advances from project funds	M	OK
k.	Compliance with Financing agreements – both loans and grants	M	The overall assessment of compliance with loan covenants is <u>moderately satisfactory</u> . In general, most covenants of Financing Agreement have been complied or are being complied except for (i) the slight delay on submission of Audit Report 2013 (ii) the custom duties (imported taxes) amounting to approximately USD1 867.65 was paid against IFAD resources and still not reimbursed by the Government.
5.	Accounting Systems, Policies and Procedures	M	The required arrangements for a sound financial management have been set up in line with the Financing Agreement. The PMU has followed the accounting law of Mongolia which is consistent with international accounting standard
a.	Adequacy of Accounting standards and practices (as designed/Agreed)	M	The PMU maintains accounting on the accrual basis The Project uses country system named “ <i>Aclous</i> ” and remains very much relevant for aid effectiveness
b.	Extent to computerisation. Double entry controls	M	Accounting is centralised at PMU. PMU was timely in recording transactions.
	Recordkeeping (including documentation and filing/archiving)	M	Record are kept in the PIU. Archiving system should be set up.
c.	Fixed Assets Records maintained and reconciled (sample and physical check)	L	Physical verification of assets has been conducted at the PMU level annually
d.	Adequate documentation and controls for Information Systems, integration of all sub-systems	M	Accounting system was installed in the accountant computer only. The system is not web based.
e.	Adequacy of chart of accounts for project accounting purposes	M	Component and categories are defined in the chart of accounts
f.	Timeliness of recording transactions, controls on erroneous recordings	M	Financial Reports are compliant with IFAD guidelines. Financial reports have been submitted semi-annually. The system has not been set approval role. Approval process is done on the paper.

6.	Reporting & Monitoring	4	
a.	Completeness, accuracy, usefulness, and timeliness Interim FM reports or progress reports - timely preparation, submission	M	The Project had submitted the consolidated semi-annual financial statements to IFAD within the time period specified in the LTB. But Audit report has not submitted as of 4 July.
b.	Follow up of previous aid-memoirs	M	Several agreed actions in 2012 supervision recommendations have been implemented by the Project except two issues are still pending.
c.	Reporting to Govt systems? Is this project included in Govt Budgets?		MOF has direct control on the PMPMD expenditures. Monthly reports have to be submitted with all supporting documents.
7.	Internal Audit		
a.	Is project activity or implementing unit subject to internal audit?	M	yes
b.	Adequacy of internal audit organization - staff capacity	H	Internal control seems still weak
c.	Adequacy of internal audit scope of work and quality of reports	H	The internal audit control shall be straightened.
d.	Assessment of matters raised in audit reports	H	Not available

8.	External Audit		
	Scope of audit		The audit was executed basing on the state auditing law, the international auditing standard, the state monitoring standard, the auditing guideline of a financial report, the contract between Mongolian Government and IFAD and the "Governmental guiding rule for the project operations
	Audit report timeliness		The certified audit report was not submitted to IFAD yet as of 4 July
	Quality of audit		Auditors expressed an unqualified opinion on the Financial statements, on the Special Account and on the WA schedule/SOE. The major findings of the audit report are listed in

			<p>Appendix which are not very critical.</p> <p>The financial position of the project is sufficiently disclosed and reconciled with IFAD's records. However, the expenditure reports on the audited financial did not disclose sources of funding separately. The Mission noted that Auditors were not able to go to the field visits/examinations due to the limited capacities. Auditor did not provide recommendations related to internal control.</p>
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**Risk Analysis Summary Table. PMPMD Loan 836-MN + Grant FSS-1-MN
Implementing Entity PMU at Ministry of Industrial and Agriculture**

	Risk Assessment*	Medium
Inherent Risk	High	
Control Risks	Medium	
1. Budgeting	Medium	
2. . Accounting Policies and Procedures and Staffing	M	
3 Reporting and Monitoring Information Systems	Medium	
4. Internal Control/Internal Audit	Medium high	
5. Funds flow/disbursement arrangements.	Medium	
6. External Audit	Medium	
Overall Project Fiduciary Risk		
H=High, M=Medium, L= Low		

Comments:

This FM RATING : Medium

**Date at which this FM rating was communicated to CPM
Date at which the revised result was communicated CFS**

APPENDIX 5 FOLLOW-UP ON 2013 SUPERVISION MISSION RECOMMENDATIONS

**IMPLEMENTATION STATUS OF PASTURE MANAGEMENT AND CLIMATE
CHANGE ADAPTATION COMPONENT AGREED ACTIONS (SUPERVISION MISSION 2013)**

Nº	Agreed action	Responsible parties	Agreed date	Implementation Status
1	Design a specific template detailing the content, agenda, list of participants and name of trainer(s)	PMU	30 July 2013	PMU has not designed templates specifically for all trainings, but uses specific templates for own organized seminars. For seminars and trainings, organized by other training organization by request of PMU, contract with these organizers includes requirement to provide following information before and after training. Hereto: - Agenda of the training which should be developed by the training organization itself and - To ensure to include all necessary information to the agenda, specific request of approval of the PMU director is included to the contract reference. - Information of trainers detail information and plan of allocation of trainers should be provided - Full report of the training should clearly show the dates, and signature list of participants.
2	Design a specific template to report on each training with signature of participants and trainer(s)	PMU	30 July 2013	
3	Organize feed-back focus groups with sample of beneficiaries for each training module	PMU	July 2013 onward	Monitoring and evaluation officer of PMU has developed a template of evaluation page with questionnaire for participants of the trainings. The template was delivered to all facilitators of soums and used for all trainings of 2013 organized after this recommendation of IFAD mission. But establishing feedback focus group is not experimented in 2013 yet. But we are planning to achieve that recommendation in 2014.
4	Assist PHGs to designate their pasture land management focal point(s)	PMU/PHGs members	July 2013 onward	PMU has planned to fulfill the implementation of the recommendation in 2014. To select participants of 2014's pasture management training pasture management focal points will be considered. Pasture management training will be organized in each district including 30 participants. 6-7 herders from each newly selected herder groups are attending the trainings. So these would be the focal point adviser herders.
5	Revise number of PHGs supported by the project (120) and the target number of herder households (4	PMU	Immediately	PMU has revised the target number of herders & herder groups and started to use it for M&E, reporting.

	050)			
6	Provide training on cooperatives to most advanced PHGs groups	PMU	July 2014 onward	Recommendation will be achieved in 2014: But in 2013 all leaders of the project supported herder groups participated project sponsored trainings on topic of cooperatives basic training. 2 trainings have been planned in 2014 on topic of cooperatives. 1st one is for newly selected PHGs and another one is for advanced PHGs and cooperatives.
7	Further focus support for women in cooperative training	PMU/NGOs (MSRM & UMPSC)	July 2014 onward	In cooperative training, organized in 2013, all leaders of the PHGs attended. But 16% of them were woman. It means 16% of leaders of the PHGs are woman. So that, in 2014, the Project will encourage woman to be leader of at least 1/3 of newly selected PHGs. So that involvement of the woman to the cooperatives training will be increased.
8	Revise training modules on climate change adaptation, add climatic information, ensure adequate duration, and use existing documentation	PMU/NGO (MSRM)	August 2013	In order to improve training quality and clear up the difference between CCA technology training and Pasture management technology training, PMU has planned to separate those two trainings selecting two different training organizers. Organizer of CCA technology training to be selected by PMU based on suggestion of Ministry of Nature and Green Development (MoNGD) and related CCA projects.
9	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	Curriculum of CCA technology training and pasture management training of 2014 should include specific topics to improve spring fenced area management. Project sponsored investment procedure has included a reference requesting PHGs to designate some of its herders for the management of fenced spring area.
10	Expedite governmental approval for PHGs guidelines and Revolving Funds procedures, seek IFAD no-objection, and implement controls on use of funds	MoF/MoIA/IFA D/PMU/ NGO (MSRM)	July 2013	The highlighted procedure in the recommendation has been approved by the Minister of MoIA. Approval from Ministry of Finance (MoF) has been given to the MoIA. The procedure has delivered to all district facilitators and its implementation has started in august 2013. Also procedure of CRF of PHGs has been developed based on the recommendation of IFAD. The procedure

				has been discussed among working group of MoIA and sent to IFAD for review.
11	Assist PHGs to implement a specific fund for operation and maintenance for community-owned private goods	PMU/NGO (MSRM)	July 2013	A regulation to create specific fund for maintenance of PHG's goods wasn't delivered to PHGs by the PMU and service provider. In order to avoid misuse of the Project-supported revolving fund as a result of mixing up herders with different type of funds, PMU has postponed encouraging herders to create specific fund for maintenance for PHG's private goods postponed. The important recommendation to create maintenance fund for goods would be implemented just after successful start of PHGs' CRF.
12	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	Assignment to collect investment needs of herder groups and Districts regarding to the Pasture management plan implementation were given by PMU to all <i>soum</i> facilitators. After that all district governors delivered official letters defining their need on pasture management and the district facilitators forwarded letters from PHGs requesting project supports. Assessment of the need of PHGs has been done by MSRM in 2012 and included in the NGO Annual report. Addition to that PMU staff and experts contracted with PMU has implemented assessment of the investment need. PMU coordinator and service provider has traveled to all districts at least one time. PMU (M&E and financial) officers have traveled to around 5 <i>soums</i> . PMU hired Revolving fund short term expert were worked in all districts. During these field works, assessment of the need of PHG's reconfirmed. Specific assessment through all herder groups hasn't been done after mission recommendation developed. The budget of specific assessment would cost around MNT 20 million.
13	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	PMU/NAMEM	By end of July 2013	Recommendation followed.

	dissemination process			
14	Hold insurance training planned in September 2013	PMU	Immediately	Recommendation followed. The training has been postponed.
15	Evaluate and document the vet and breeding training methodology	PMU/NGOs	July 2013 onward	

IMPLEMENTATION STATUS OF MARKET DEVELOPMENT COMPONENT AGREED ACTIONS				
Agreed action		Responsible parties	Agreed date	Implementation Status
1	Recruit the Value Chain Coordinator (specific selection committee to be formed)	LGF unit	Immediately	Recruitment process was conducted by the Evaluation Committee established by the order of MoF State Secretary on August 14, 2013. The Evaluation Committee interviewed 5 applicants and appointed Mr. G. Gankhulug by the PMPMD PMU Director on September 23, 2013. Unfortunately after 3 days he expressed his interest to discontinue his work. Therefore, Mrs. Nasandelger, the second ranked person was appointed by order of the PMPMD PMU Director on September 27, 2013.
2	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	According to SLA between MoF and participant Banks, the State Bank has disbursed sub-loans in amount of MNT 304.5 million between July 09 –August 26, 2013 to 34 women's groups in 5 aimags and the Capital Bank has disbursed sub-loans in amount of MNT 96.6 million between July 25 – September 20, 2013 to 11 women's groups in Arkhangai and Khuvsgul aimags. The second tranche of credit line in amount of USD 200,000 was allocated to the State Bank on November 06, 2013 based on the Amendment to SLA made between MOF and the State Bank on October 31, 2013. Therefore, as end of December 2013, the State Bank has disbursed total amount of MNT 534.0 million for 64 women's groups out of MNT 625.0 million and the Capital Bank has disbursed in total amount of MNT 114.6 million for 13 women's groups out of MNT 143.2 million.
3	Contract an authorized 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	The selection process was carried out by the Evaluation Committee established by the PMPMD PMU Director on August 14, 2013 and TOR of the proposed law firm and its draft contract were reviewed by the IFAD. There were 5 top ranked law firms received invitation of EOI and 4 out of 5 firms submitted their EOI on August 22, 2013. Based on review and approval of the IFAD, the LGF Unit contracted Anand & Batzaya Advocates LLC on November 13, 2013. As end of January 2014, the contractor law firm has finalized both individual and portfolio guarantee draft contracts with participant commercial banks and issued its legal opinion. Currently MoF is reviewing the legal opinion.
4	LGF Unit Manager to attend a specific	PMU/LGF	October 2013	The LGF Unit Manager and Specialist attended "Financial

	training course on Guarantee Fund Management			Management” seminar, organized by the IFAD in Bangkok on October 09-11, 2013. There is still need of training/capacity building on Loan/Credit guarantee scheme or activities.
5	Organize an inception workshops with stakeholders of Guarantee and Credit line facilities	LGF	October 2013	The PMPMD LGF Unit organized Introduction-Discussion Workshop on October 02, 2013 in Ulaanbaatar and 70 participants representing government stakeholders, participant banks, NGO and women’s groups were present. Moreover, the following day of above workshop the LGF Unit organized another separate discussion with participating banks at their request at Corporate Hotel. The discussion with the banks was effective at presence of Mr. Thierry and agreed to set guarantee fee at 1% once a time before issuing guarantee.
6	Market the LGF scheme with regards to loans extended by commercial banks in non-PMPMD areas	LGF	Immediately	The PMPMD LGF Unit is currently working on training curriculum with assistance of State owned LGF. There are 6 non-PMPMD aimags, including Dornod, Sukhbaatar, Bayankhongor, Khovd, Zavhan and Selenge. The agenda was discussed by the Technical Committee and Steering committee and included in the LGF Unit action plan for 2014. Starting from February, 2014 the PMPMD LGF Unit will organize one day- training in Selenge aimag, which is agricultural active region. As for the budget for training, MNT 30.0 million budgeted for 2014. Moreover, once the individual guarantee started with participant banks, the LGF Unit will start its marketing to participant banks.
7	Advocate the use of interests generated by investment of LGF resources to cover LGF operating costs and increase LGF resources	LGF	Immediately	Technical Committee shall discuss it once the individual guarantee started with the banks and accordingly second tranche of guarantee resource in amount of USD 2.0 million released to the LGF Unit’s account.
8	Elaborate financial projections and submit them to PMU	LGF	30 July 2013	The PMPMD LGF Unit submitted its annual financial projection to the PMPMD on time.
9	Endorse LGF Guarantee scheme and Credit line manual of procedures	LGF Technical Committee and PMPMD Steering Committee	30 July 2013	The Operational manuals for both credit line and guarantee activities were discussed and approved by the Technical Committee on August 12, 2013 and by the Project Steering Committee on September 03, 2013.
10	Open a 3 rd bank account for fees paid by bank and interests on financial investments	LGF	Immediately	The PMPMD LGF Unit has opened 3 rd account “2600077336” named “Fee and interest income account” at Ulaanbaatar City Bank on December 17, 2013. As end of December, there are totally MNT

				5.9 million from guarantee fee from State Bank and Capital Bank. Once we finish the allocated total amount for the Capital Bank, the PMPMD LGF Unit calculate its deposit interest income and transfer it to the opened 3 rd account immediately and accordingly will close the credit line account.
11	Issue a Joint Order of State Secretaries related to the use of EGF and SMEs DF for financing PMPMD groups	MoF/MoL/MoIA	Immediately	The joint order was issued at three Ministers level of MOF, MOIA and MOL on September 19, 2013. The purpose of the joint order is to secure resource in amount of MNT 3.0 billion from EGF, up to MNT 10.0 billion from SME Fund and up to MNT 20.0 billion from JICA two-step loan and ADB ARD projects.
12	Elaborate a financial and training planning for PMPMD-supported groups	PMU/LGF	Immediately	Starting from February, 2014 the PMPMD LGF Unit will organize one day- training in Selenge aimag, which is agricultural active region. As for the budget for training, MNT 30.0 million budgeted for 2014.
13	Advocate temporary tax exemption for cooperatives	LGF	From 2014 onward	The proposed follow-up actions will be taken starting from once the cooperative created and the PMPMD PMU support those cooperatives in terms of loan and technical assistance.
14	Advocate amendment on SMEs Dev. Fund and EGF policy	PMU/LGF	Immediately	The PMPMD LGF Unit will send official letter to MOL through MOF to select State Bank and Capital Bank in EGF resource allocation as much as possible in 5 PMPMD aimags. The EGF resource will be allocated starting from around April 2014.

IMPLEMENTATION STATUS OF M&E AGREED ACTIONS				
No	Agreed action	Responsible parties	Agreed date	Implementation Status
1	Explore use of remote sensing and GIS for pasture health monitoring	PMU	30 August 2013	Contract to produce the GIS map for one of project soums is made with Institute of Meteorology, Hydrology and Environment. The map will be introduced to soum authorities and herders to receive their feedback on how to use the map for their pasture management plan. The result will be introduced to IFAD Mid-term review for comment. If considered useful for pasture management plan and health monitoring, the contract will be extended for project 15 soums.
2	Train NGOs local facilitators in M&E data collection	PMU	30 August 2013	A separate training is not conducted. However, during the management workshops, guideline and advice on project M&E issues and data collection was provided to soum facilitators of two components (Contract extension with 2 NGOs selected in 2012 was suspended). At the management workshop of Pasture management coordinators that was held on 29-30 July, 2013, collecting and providing data of 1 st level result, RIMS, and M&E matrix was introduced together with format of required data on beneficiaries from project investments and also training evaluation sheet. In addition, at the management workshop of Micro Enterprise development sub-component, the same information is provided to women's group facilitators and received their feedback.
3	Implement a dynamic follow-up on a sample of PHGs, women, herders and producers' groups	PMU/NGO (MSRM & UMPSC)	From August 2013 onward	Component coordinators and M&E officer held meeting with group members and discussion on project interventions and results. Coordinator for WGs worked in 19 soums and met with nearly 200 women from 37 WGs while pasture management coordinator worked in 15 project soums and met with PHGs members. Project outcome survey will be conducted in the first quarter of 2014.
4	Issue an action plan on GIS information and its use	PMU	August 2013	The plan will be developed by the selected service provider, which was contracted on February 7, 2014. The task was included the in work assignment given to the Service provider.
5	Organize the experience workshop with stakeholders of both components sharing	PMU	November 2013	The workshop was postponed until June 2014

IMPLEMENTATION STATUS OF FINANCING AGREED ACTIONS				
Agreed action		Responsible parties	Period	Implementation status
1	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	US\$ 1 897.65 charged against IFAD loan resources for import and value added tax for motorcycles bought in 2012 has not been reimbursed by the Government. PMU sent NV to the MoF twice claiming this amount but received objections to reimburse. Therefore, PMU deducted approximately US\$ 1 897.65 of customs duties from 2013 Q1 WA 7, dated 2013.10.22.
2	Conduct monthly bank reconciliation	PMU	Immediately	PMU collects the monthly bank statements, including the statement in the financial performance reports and financial balance sheets.
3	Maintain an inventory book of equipment transferred to PHGs and undertake periodic controls	PMU	Immediately	An inventory book of equipment provided to the pasture herder group is maintained by the PMU book keeper. During his field work in Gobi-Altai aimag, PMU accountant monitored the operation of the equipment, its repayment status and establishment of revolving fund.
4	Audit report to be translated in English by the auditors	Auditors	Immediately	The 2012 audit report of was translated and submitted. 2013 audit has not been conducted yet.
5	Adjust exchange rate loss in PMPMD financial statements due to misapplication of wrong exchange rate	PMU	30 September 2013	When completing WAs, we comply with the currency rate of that particular date on which fund is transferred from US\$ account into MNT account. The disbursement principle is to spend the money in order which comes in into the account.
6	Implement a procedure for timely replenishment of the Designated Account	PMU	Immediately	The Designated Account replenishment was completed three times in 2013.

Implementation status for Supervision Mission 2013 recommendation for PMPMD procurement

Agreed Action	Responsibility	Agreed Date	Completed date	Implementation status
In consultation with MOIA, MOF and GPA selects and 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 SBD ⁴ and RFP ⁵ for IFAD prior review purposes	PMU, MOIA, MOF and GPA	By 31 September 2013	By 30 November 2013 (partially completed)	RFPs for bids of two consultancy services were translated by the “Simplex solution” law firm. The soft copies were sent to IFAD. PMU sent to IFAD the hard copy with stamp of the law firm via DHL together Withdrawal applications. The translation work of Standard Bidding Document for goods and civil works which needs to be reviewed and translated by the authorised legal firm, is postponed until such time they are required
Establishing as part of its internal control framework the establishment of a tracking or inventory system recording primary information such as engine numbers, chassis number serial numbers, location of assets, size of and type of asset created when the goods and works are delivered, receipt acknowledged and handed over to the target beneficiaries.	PMU and MOIA	By 31 September 2013	By 31 September 2013	PMU has established an inventory system to record primary information of assets according to the requirements of IFAD recommendation.
Establishing as part of its internal control framework procedures/guidelines on the ownership/registration, fair use and the maintenance of the goods, equipment, wells, building etc.	PMU and MOIA	By 31 September 2013	By 31 August 2013	The guideline on using investments for herder groups funded by the Market and Pasture Management Development Project was approved by the order #A/92 of Minister of MoIA.
PMU through the Ministry of Industry and Agriculture (MOIA) would submit a brief report on the finding on the Evaluation Committee to the Ministry of Finance, with a copy to IFAD, recommending the suspension and blacklisting of the bidder to deter the bidder from	PMU, MOIA and MOF	As soon as possible	Not completed	PMU sent the official letter about to submit a brief report on the finding on the Evaluation Committee to the Ministry of Finance, with copy to IFAD, recommending the suspension and blacklisting of “Bulgan undarga” and “Guulin tal” companies to deter the bidder from participating in future bids, enforcing its commitment to

⁴ Standard Bid Documents for procurement of good and civil works

⁵ Standard Request for Proposal for the procurement of consultancy services/ services.

participating in future bids, enforcing its commitment to fight fraud and corruption.				fight fraud and corruption. “Bulgan undarga” company submitted a fake tender guarantee to the bidding of new well drilling and exploration in 2012. “Guulin tal” company made a fake tax report and submitted it to bid of construction of hay shelter and fodder storage in Govi-Altai aimag in 2013. MoIA has not submitted a request to MOF to suspend these two companies
Constantly review and update the procurement plan and submit the revised procurement plan for IFAD approval.	PMU	Regular and continuous action.	Regular and continuous action.	PMU submits the revised procurement plan to IFAD when changes made for approval. When the bid of weather station was organized unsuccessfully by Local competitive bidding, PMU updated the procurement plan as direct purchasing by NAMEM in according IFAD approval.
Revise Letter to the Borrower/Recipient to harmonise threshold for the application of methods of procurement with National Regulation and strengthen risk mitigation measures by IFAD in prior review of procurement actions.	IFAD	By 31 September 2013	By 16 January 2014	IFAD revised letter to the Borrowers/Recipient to harmonise threshold for the application of methods of procurement actions and sent it to MoIA, MOF and PMU.
Training of Procurement Officer	PMU/GPA	By 31 September 2013 and continues.	Continuous action.	PMU requested MOF and GPA to involve Procurement Officer in the trainings. Procurement Officer has been included in a training organized by IFAD in India.
Maintain Contract Register and individual contract monitoring forms for large contracts as referenced in IFAD’s Loan and Grant Disbursement Handbook.	PMU	As soon as possible	By 31 August 2013	PMU made a contract register in according individual contract monitoring forms for large contracts as referenced in IFAD’s Loan and Grant Disbursement Hand book.

IMPLEMENTATION STATUS OF AUDITING AGREED ACTIONS

№	Agreed actions	Responsible parties	Implementation status
1.	Monitor operations and maintenances of the project investments made to pasture herder groups and execute measures to improve the investments' value	PMU accountant	By the A/92 order of the Minister of the MolA, the project investment repayment guidelines was approved and taken into effect.
2.	Increase the project outputs by implementing postponed activities of 2013 from the planned year due to specific reasons	PMU accountant	Activities related to loan extension under guarantee schemes began thoroughly in 2013
3.	Submit the list of properties worth 149.3 million MNT to the State Property Committee and draft a contract.	PMU accountant	In June, 2013, PMU drafted a contract regarding to asset management without the State Property Committee permission and submitted the list of assets to the State Property Committee
4.	Separate the duties of the cashier and accountant for effective internal control and assign different person as a cashier and an accountant in 2013	PMU accountant	By the order of PMU director, separated the duties of the cashier and assigned the duties to M&E officer S. Gun-Uyanga. Property clerk duties was assigned to "Market development" component coordinator Ts. Altantsetseg
5.	Readjust transfer of USD 17,935.37 from Designated Grant Account into Designated Loan Account in accordance with the Financing Agreement	PMU accountant	According to the Financing Agreement, inappropriate transfer of USD 17,935.37 from Designated Grant Account readjusted into Designated Loan Account.