

## **Mongolia**

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### **Project for Market and Pasture Management Development**

#### **Supervision report**

#### **Main report and appendices**

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Asia and the Pacific Division  
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## Abbreviations and acronyms

ADB	Asian Development Bank
AWP&B	Annual Work Plan and Budget
DA	Designated Account
EGF	Employment Generation Fund
FRC	Financial Regulatory Commission
GEF	Global Environment Facility
GoM	Government of Mongolia
IAS	International Audit Standards
IFAD	International Fund for Agricultural Development
JICA	Japanese International Cooperation Agency
LGF	Loan Guarantee Facility (PMPMD)
MoF	Ministry of Finance
MoFA	Ministry of Food and Agriculture
MoL	Ministry of Labor
M&E	Monitoring and Evaluation
MNT	Mongolian Tugrik
MTR	Mid-Term Review
NAMEM	National Agency for Meteorological and Environmental Monitoring
NGO	Non-Governmental Organization
PDP	Project Disbursement Profile (IFAD)
PHGs	Pasture Herders Groups
PMP	Pasture Management Plan
PMPMD	Project for Market and Pasture Management Development
PMU	Project Management Unit
RF	Revolving Fund
RIMS	Results and Impact Management System
SCGF	State Credit Guarantee Fund
SoE	Statement of Expenditures
SMEs	Small and Medium Enterprises
UB	Ulaanbaatar
UMPSC	Union of Mongolian Production and Services Cooperatives
USD	United States Dollar
VC	Value Chain
WA	Withdrawal Application

## A. Introduction<sup>1</sup>

1. The objective of the Supervision mission is to evaluate the financial and physical progress made in the implementation of the project's activities and to recommend any corrective action deemed appropriate to achieve the project's objectives. In particular, the mission has: (i) reviewed the implementation of the MTR recommendations; (ii) reviewed the performance and progress of the project since MTR; (iii) assessed achievements, constraints and initial impact of the project in relation to the expected project objective; (iv) assessed the institutional and implementation arrangements, project costs and financing, in view of progress achieved and changes occurred since appraisal; (v) reviewed compliance with loan and grant covenants; (vi) recommended adjustment, reorientation and improvement in the project design, including its future strategy and directions, as may be required to achieve such objectives, and (vii) assisted the project to finalize its methodology, work program and procedures in view of the Project Completion.

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 (PMPMD) 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 five *Aimags*: Huvsgul, Arkhangay, Bulgan, Khentii and Gobi-Altai. The total project costs amount to USD 18.4 million, including an IFAD loan of USD 11.5 million; a GEF/SCCF grant of USD 1.5 million; government's contribution of USD 0.9 million; beneficiaries' contribution USD 0.2 million, and private sector contribution of USD 4.3 million. The project consists of three components: (i) Market Development (value chain development, small enterprise development, loan guarantee scheme); (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 project's officials and staff at both the PMU and the Loan Guarantee Facility Unit (LGF) and its implementing partners, including the Ministry of Food and Agriculture (MoFA), the Ministry of Finance (MoF), the Union of Mongolian Production and Service Cooperatives (UMPSC), AGROM, commercial banks (XacBank, State Bank and Capital Bank), the State Credit Guarantee Fund (SCGF), the Procurement Department of MoF, as well as with the project's auditor. The mission undertook field visits for about 16 days to selected *soums* in Bulgan, Arkhangay and Huvsgul *aimags* where it met with *aimag*, *soum* and *bag* governors and local government officers and project Working Group heads and members, project-supported women and SMEs/entrepreneurs beneficiaries, bank branches managers, pasture herders' groups leaders and members, local facilitators and staff from implementing and partner agencies.

4. The conclusions of the Supervision Mission were discussed during a wrap-up meeting held on July 3, 2015 and chaired by Mr. Batsengee Dorjsembed, Director General, Development Financing and Debt Management Department, Ministry of Finance. This Aide-Memoire includes the comments formulated during the wrap-up meeting.

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<sup>1</sup> The mission visited Mongolia from June 2 to July 3, 2015 and was composed with: Mr. Thierry Mahieux (Team Leader and Rural Finance and Value Chain Specialist from June 22 to July 10), Mr. Sabine Schmidt (Pasture Management Specialist from June 2 to 10 and from June 24 to July 4); Mr. Liu Ke (Associate Country Program Officer, China Country Office, IFAD from June 28 to July 3), Ms. Han Lei (Associate Country Program Officer, China Country Office, IFAD from June 23 to 27), and Ms. Sunae Kim (Environment and Climate Change Portfolio Officer, APR/ECD from June 25 to July 3). Mr. Matteo Marchisio (Country Program Manager and Mission Leader, IFAD) joined the mission from July 1 to July 3. During its field trips, the mission was accompanied by PMU and LGF staff, representatives from UMPSC as well as by Mr. G. Battulga, Regional Manager - Regional Loan Division - State Bank

5. The mission team would like to thank all persons met for their time, their readiness in sharing valuable information and their contribution to findings and recommendations.

## B. Overall assessment of project implementation

### Overall implementation progress

6. Overall implementation progress is rated **satisfactory (5)**. Since the 2014 MTR mission, the project has made significant progress in both physical and financial delivery. The physical implementation of activities is satisfactory especially for component 1 “Pasture Management and Climate Change Adaptation”, while component 2 is lagging behind especially with regards to value chain development sub-component which has not yet recovered from the nearly 2-year delay in its implementation. Financial disbursement rate is low (54%) compared to IFAD Corporate Project Disbursement Profile especially after 75% of project duration elapsed. When considering commitments, the financial disbursement rate increases to 59%, still a low performance.

7. The initial 2015 AWP&B approved by the Project Steering Committee and IFAD indicates a total budget of MNT 7.2 billion (i.e. USD 3.6 million) but the Parliament has decided a 15% transversal cut on all projects. Reassurances were provided by the MoF on the fact that some flexibility is provided in the implementation of the Parliament decision, and that as long as the project delivers and disburses in line with its initial 2015 AWP&B, it is unlikely that the budget cuts will effectively affect the project. At the request of the GoM, a summary of the 2015 AWP&B will be submitted to IFAD for its initialization so as to confirm IFAD no-objection already given electronically in March 2015.

8. Despite the position expressed by the GoM to have a 100% financial disbursement rate at project completion, the mission considers it unlikely to happen within the remaining timeframe (completion due on September 30, 2016). Even considering that both 2015 and 2016 AWP&B could be disbursed at 100%, there would still be a balance of funds available of about USD 1.05 million (9% of IFAD loan amount). Considering more realistic disbursement rates for years 2015 and 2016 of about 80-85%, the balance of funds available at project completion could amount USD 1,8 million (i.e. 15.7% of IFAD loan).

### Likelihood of achieving the development objectives

9. Likelihood of achieving the development objectives is rated **satisfactory (5)**. After a slow implementation process mainly resulting from the time needed to internalize an innovative approach such as the guarantee facility, for which an institutional and regulatory framework was not existing at the time of the project inception, and or an innovative concept such as the development of value chains, for which experience and skills were not available locally, the project has reached in 2015 its momentum in terms of implementation of activities. Despite this slow start, many activities have already impacted very positively the target communities, such as: women's groups for which a high demand for new groups emanates not only from women but also from the local authorities; pasture management plans elaborated by Pasture Herders Groups (PHGs) and their integration in the *soum*-wide ones, and investments for PHGs such as hay and fodder storage, spring fencing, sustainable access to water, weather information system. Some other activities will need a longer gestation period before producing their full impact on communities such as SMEs, Cooperatives and Value Chains Development activities. One of the main achievement of the project so far is the potential to scale up approaches and results of the project beyond the project area (PHGs, women's groups, local value chain development).

10. In order to minimize the balance of resources available at project completion and comply with the GoM position, some activities could be considered being added in the 2016 AWP&B. These activities were not planned but have been successfully implemented by the project up to now and have had a significant impact on the communities. These include:

- 150 additional women's groups to be financed with the necessary credit line to finance them and the necessary increase of the Union of Mongolia Production and Services

Cooperative budget to assist, train and monitor them (estimated additional budget of MNT 1.02 billion for the credit line and MNT 0.1 billion for the NGO contract and *aimag/soum* coordinators);

- Training, capacity building and equipment for 2-3 Pasture Herders Groups (PHGs) per *soum* i.e. 30 to 45 new PHGs. Once capacitated each PHG will determine its own investment needs up to a maximum envelope of MNT 25 million (total estimated additional budget for 45 PHGs of MNT 1.2 billion and of MNT 0.05 billion for *soum* coordinators);
- Financing workplaces for women's groups in all remaining *soums* not yet budgeted in the 2015-2016 AWP&Bs and financing exhibition halls in 5 *aimags* (estimated additional budget of around MNT 0.8 billion for around 25 workplaces and MNT 0.25 billion for 5 exhibition halls).

Agreed action	Responsibility	Agreed date
1. Finance 150 additional women's groups through project credit line and complement contract of NGO and <i>aimag/soum</i> facilitators	UMPSC, LGF, PMU	From Sept. 2015
2. Capacitate around 45 PHGs in 15 <i>soums</i> and finance an investment envelop of MNT 25 million per PHG	AGROM, PMU	From Sept. 2015
3. Finance workplaces in about 25 <i>soums</i> and exhibition halls in 5 <i>aimags</i>	Soum facilitators, <i>soum</i> and <i>aimag</i> governors, PMU	From Sept. 2015

## C. Outputs and outcomes

### Component 1: Pasture Management and Climate Change Adaptation

11. The Pasture Management and Climate Change Adaptation component aims to institutionalize sustainable pasture management practices through herders' institutions and improved pasture management planning through joint planning by local government and herders, and to enhance herders' resilience to climate change impacts. Key activities include: (i) establishment and strengthening of PHGs, for collective planning and management of pasture use, and to develop herders' institutions that may transform into cooperatives; (ii) strengthening pasture land use planning, management and monitoring on *soum* level through improving collaboration, skills and knowledge of local government officers and herders, and (iii) investments in support of pasture management plan implementation and measures for climate change adaptation.

12. Implementation of the Pasture Management and Climate Change Adaptation component is overall on schedule and generating benefits for herders' livelihoods, namely through improvements in pasture and risk management. Good project ownership among beneficiaries and local government was achieved through delegating planning and monitoring responsibilities to local government and integrating the project *soum* facilitator's role into local planning and oversight processes. Enhanced cooperation among herders and local government and empowerment of herders through their own institutions (PHGs) have improved local governance which in turn reflects positively on natural resource management. Practices for seasonal pasture protection have been successfully introduced in selected *soums*. Social impacts of herders' cooperation in PHGs or Cooperatives include community assistance to and inclusion of disadvantaged households. Project investments have generated revolving funds and access to loans that enable small enterprise activities and HHs economic support that are highly valued by herder household beneficiaries. The overall performance of the component is **satisfactory (5)**.

#### Sub-component 1.1 - Pasture Management

13. The objective of the sub-component Pasture Management is that PHGs and herders' households in the project area plan and manage livestock and pastures in a more sustainable manner. This subcomponent comprises of two main activities: (i) formation of PHGs and generation of PHGs' Pasture Management Plan (PMP), and (ii) *soum*-level pasture management planning inclusive of PHGs' PMP.

14. 120 PHGs with 2,800 household members have been established and developed their pasture management plans. Spring and early summer 2015 were very dry, however local government and herders reported positive outcomes on pasture areas managed by PHGs and an increased adherence to, and capacity to enforce pasture management. While there are cases of non-adherence to pasture use rules agreed by PHG members, in general pasture management has improved *bag* and *soum*-wide. PHGs members are driving better planning and management by *bag* governor and *soum* officers when they present their agreed suggestions for pasture use in planning meetings. The overall performance of the sub-component Pasture Management is **satisfactory (5)**.

15. Positive livelihood outcomes for poorer herders are through access to small loans from revolving funds, and through employment and other support by wealthier members. Feedback from PHG members also suggests that project-supported activities are influencing young people to stay in their rural areas as herders. PHG members are organising mutual labor support, and labor division in livestock husbandry that supports better livestock management, with large livestock being taken on *otor*.

16. Having made targeted and high value investments and established a good decision making structure, project support should continue to strengthen PHGs as institutions. Project support to strengthen herders' institutions and local cooperation in the last project year may include facilitation of experience sharing events, both for *soum* level and PHG level. Also a "management seminar" with representatives of all project stakeholders and beneficiaries is considered a very valuable tool to build understanding and consensus on objectives and responsibilities for joint project implementation; such an event should be repeated to plan project completion and activities beyond.

17. Group leaders tend to be overwhelmed with tasks; therefore committee/council members should play a larger role and members be more active. Especially the active role of women should be promoted. Experience with herder community organizations in other regions of Mongolia have shown that women play an important role in social organisation, organizational development and management. *In particular to cooperative management, and related financial and business management, the mission recommends to further target women for training and holding responsibilities. The target for percentage of women in PHG decision-making bodies should be increased from 20 % to 50%.*

18. PHGs revolving funds have been capitalized by the repayment of 80% of investments above MNT 8 million (96% achievement as at June 2015). There revolving funds have enable low interest loans to herders and as at June 2015, 610 households have received loans for an amount MNT 0.34 billion with a 100% repayment rate. The transfer of revolving funds established by initial members of PHGs to emerging cooperatives remains an issue to be solved. *As group funds are an important instrument to extend small loans to members as well as a mean to build trust among members, the mission recommends to ensure revolving funds remain at PHGs level or any other appropriate and sustainable option.*

19. While many herders join existing cooperatives in order to take advantage of the wool subsidy provided by government, they see little other benefits from cooperative membership. Many cooperatives they join engage in various income generation activities but are not agricultural production or marketing cooperatives, and are not in a position to pay dividends in the initial years of operation. Many herders find the establishment and management of their own cooperatives a challenge too hard to take on; advanced training on cooperatives development has been delivered by NAMAC, however *the mission recommends further capacity building and institutional strengthening to develop herders' skill*. More effective and user-centred training methods are planned, whereby trainers will be available in *soums* to work with trainees as needed, and to provide all information materials in digital form.

20. Finally, vocational trainings for young rural people are being prepared; the PM component officer is actively engaging with the *aimag* level vocational training centres to initiate this activity on schedule.



### **Sub-component 1.2 - Climate Change Adaptation**

21. The objective of this sub-component is the reduction of the vulnerability of herders in the project area to climate change impacts through training and investments. Herders' and *soum* government officers' knowledge and skills enhancement as well as establishment of extension mechanisms include trainings on: (i) pasture management; (ii) knowledge management on pasture conditions and weather; (iii) climate change; (iv) livestock health and breeding, and (v) cooperatives. The sub-component implementation is rated as **satisfactory (5)**.

22. The service providing NGO (AGROM) has developed and delivered trainings and educational materials tailored to the needs of herders and local officers, providing practical skills and knowledge to address pasture management and climate change. The introduction of a simplified pasture monitoring method (photo monitoring) by AGROM not only expands the network of monitoring points beyond the 5-6 plots under the regular NAMEM monitoring; it also provides a better tool for local decision-making on pasture management and establishes data bases maintained at *soum* level. Training for this photo-monitoring was provided to officers of *aimag* agricultural departments, *soum* land officers and pasture officers or meteorological officers of project *soums*. *The mission recommends to further enhance skills of trained individuals and include in the training those officers who missed the first training. Soum officers should be provided with the necessary tools (PC, software, GPS) and skills to effectively maintain the data base. In addition, the effective use of the data, and sharing of information among all local officers of relevant agencies (NAMEM, ALACGAC, Livestock Unit of Ministry for Food and Agriculture) for improved and joint pasture land planning should be overseen before project completion.*

23. AGROM developed educational booklets on pasture improvement, pasture management, PHG organisational development and management, climate change and fund management. The booklets are being distributed with portable small "libraries" for herders that the project has introduced as an extension method for herders; however more efforts need to be made to develop appropriate extension services for herders in the last project year. Education and public awareness is also promoted through publications in magazines such as "Mongolian Herder" and "Tomorrow's Agriculture" which extends information and lessons learnt beyond the project area. In five project *soums*, rooms have been made available by local government and equipped with project support to serve as library/information rooms for herders. *In order to strengthen the capacity of soum facilitators to provide information to herders using video and images, the mission recommends that such information rooms equipped with laptops, and portable projectors are financed in the remaining 10 soums covered under the component.*

24. Investments in 15 project *soums* to support implementation of PHGs pasture management plans and *soum* wide ones amount to date to MNT 1,77 billion representing an average investment per *soum* of MNT 0.12 million. Reportedly, with double counting, 7,406 households, 24,683 individuals and 1,903,312 head of livestock have cumulatively benefited from project investments delivered for the period ending in 2014.

25. Preparedness for winter and for extreme events has improved through increased hay preparation, fodder production and repair of hay and fodder storage facilities that provide benefits far beyond the project area. Five hay and fodder storage shelters have been constructed and two have been repaired including the large facility in Tsagaan Uul *Soum* that services many *soums* in the region (delivery rate by mid-2015 is 55 % and 100 % respectively). Efficiency evaluation made by the project on storage facility in Tsogt *soum*, Gobi Altai *aimag* led the project to cancel one rehabilitation of a bid storage facility and use the relevant funds to finance the construction of a similar storage facility in Ulziit *soum*, Arkhangay *aimag*. Selection process for the Arkhangay *aimag* storage will be organized by *aimag* authorities in compliance with the relevant Law of Mongolia.

26. Fencing of fields is providing PHGs with hay harvest for their own use and for sale. During 2013-2014 period, 240 hectares of hay fields were fenced at an expense of MNT 147 million. The practice of establishing larger grazing reserves guarded by appointed herders has been (re-)introduced successfully in project *soums* and is a far more cost-effective method of seasonal

protection of pasture lands than fencing. Consequently, some *soums* are now producing 100% of their hay needs. *In the remaining project year, the mission recommends to focus on scaling-up and replicate these practices in cooperation with soum governments and to publicize the success broadly as it can easily be implemented by soum governments and herders country wide, with great cost-benefit ratio.*

27. Rodent control efforts are underway, with bird stands and “mechanical” methods being used. *The mission recommends that the field research by experts to identify cycles of population growth and primary areas affected is undertaken as soon as possible in order to better plan and focus activities, and methods be evaluated for their overall ecological impact.*

28. Selected springs, as recommended by the Aimag Environmental Department, have been fenced and improved water flow is reported by local users. However, the fenced areas are small, and options should be investigated to exclude grazing in a larger area of the wetlands around springs. Access to water for livestock can still be maintained, but only at selected access points, or water for livestock can be diverted to a trough. The spring protection measures should also be coordinated with river basin councils or sub-councils if they exist, or the establishment of these councils, in line with the policy on integrated water resources management, should be encouraged. The new approach by PMU to evaluate proposals and fund protection of selected springs is preferably compared to the previous same funding amount/spring protection.

29. Early warning on extreme events and changing weather conditions to herders has been improved through the introduction of “mobigator” capability through which the *soum* meteorological officer can send sms/messages to registered herders’ mobile phone numbers. Mobigator quickly proved to be effective when the snowstorm hit the Bulgan *aimag*. Herders in Dashinchilen *soum* estimates that without such quick information, the number of loss out of total 236,963 heads of livestock in the *soum* could have been far greater than 5,000. Stored hays were distributed to 350 HH herders out of total about 800 HH in the *soum* as a loan and this will be paid back in kind or in cash. At the same time, as noticed in Gurvanbulag *soum*, the limited capacity of the emergency battery which is at the best lasting 10 min could hinder the utilization of the mobigator-based message system at critical times. *The mission recommends to increase the emergency battery capacity at least up to 3 hours through procurement and check technical errors.* Seven automatic weather stations have been completed by 2014, the remaining 8 stations were agreed to be funded by the Government.

30. Other completed investments include 35 newly constructed wells and 2 rehabilitated wells (delivery rate mid 2015 is 76 % and 100 % respectively); 60 small tractors (second phase of a successful activity implemented in 2013 under the same terms and conditions); construction of five water harvesting points and 12 improved/model winter shelters; technical equipment for all *soum* land officers; as well as 30 solar panels (100 %); 57 sprinkler systems (47.5 %) (re-distributed to vegetable grower women’s groups as agreed); furnishing of 3 information centres, and construction of 500 bird-of-prey stands to support rodent control.

31. Based on local needs and natural conditions, some changes have been agreed to investments with project support. In 2 *Soums* of Huvsgul where permafrost prevents drilling, the support of a tractor with hay baling equipment, and a universal heavy duty tractor has been agreed by PMU and two local *soum* governments. An additional agreed investment is for three high capacity, multifunctional (excavator, snow plough) tractors. These agreed investment changes meet real local needs. *The mission recommends to further adjust investments to local needs through consensus with aimag and soum governments. Storage facilities for meat and cashmere, as well as facilities for veterinary services are other investments that might be considered for funding with project support.*

32. The selection of a well drilling company in Gobi Altai has been delayed; a second tender process is underway (June 2015). Direct contracting might be considered, as no other bidders are likely to participate in further bidding, so as to complete the wells in time. *However, the mission recommends the PMU to explore with the relevant authority the possibility to extend the contract for well drilling in Gobi-Altai aimag up to May, 2016 as well drilling job might not be finished before winter.*

33. Several policy issues are worth mentioning that may pose a threat to sustaining project outcomes. Pasture officers of the *Soum* Livestock Units are, in most cases, not professional pasture experts; they need more technical training, as well as training in extension skills (communication, training, facilitation). The Mongolian Livestock Program and the Cooperatives program are currently not receiving the financial support as planned in the national budget due to budget cuts affecting all sectors. In Bulgan *aimag*, the position of pasture officer was even suspended at the time of the 2015 Supervision mission.

Agreed action	Responsibility	Agreed date
4. Further focus on women for cooperative, financial and business mgmt. training so as to increase to 50% the percentage of women in PHGs decision-making bodies	AGROM, PMU	Immediately
5. Ensure that Revolving Fund remains at PHGs level or to any appropriate entity, avoiding an integration into Soum Development Fund	PMU, AGROM	Immediately
6. Provide further capacity building and institutional strengthening training to PHGs members on cooperatives	PMU, AGROM	Immediately
7. Further enhance skills of local governments in photo monitoring techniques and its use for pasture mgmt. as well as use of its related database	PMU, AGROM	Immediately
8. Finance rehabilitation and equipment of information rooms in 10 soums	PMU	From Sept. 2015
9. Scale-up and replicate reintroduced practice of larger grazing reserves with appointed herders as guards	PMU, AGROM	Immediately
10. Undertake field research on improvement of rodent controls with assessment of overall ecological impact	PMU	Dec. 2015
11. Increase lifetime of mobigator battery up to 3 hours	PMU	Immediately
12. Further adjust PHGs investments to their needs through a consensus with aimag/soum governments	PMU	Immediately
13. Explore possibility to extend direct contract duration up to May 2016 for well drilling in Gobi Altai	PMU, MoFA, Procurement Office	By Sept. 2015
14. MoF to expedite the payment of the 60 tractors already delivered to PHGs	PMU, MoF	Immediately

## Component 2: Market Development

34. 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 loan guarantees and credit lines. Continuous significant improvements are to be noted in the implementation of SMEs and Value Chain Development while the UMPSC has exceeded its target in term of women's group formation and strengthening. The overall performance of the Market Development component is rated as **satisfactory (5)**.

### Sub-component 2.1 - Value Chain Development (moderately satisfactory)

35. Significant progress has been made in the implementation of this sub-component which is however still lagging behind due to its late start. National value chains selected in October 2014 by the Value Chain Working Group, headed by the MoFA, include: (i) dairy products; (ii) berries, and (iii) vegetables. Objectives of this sub-component is to ensure linkages between small producers, herders, farmers and other stakeholders of the selected value chains, through the provision of training, capacity building and small investments to promote new technologies (i.e. two-row seeding machine, low tunnel plastics which have been distributed only in the 5 project aimags). Activities implemented so far by the project include: milk hygiene training for farmers and herders in UB and

Bulgan aimag; seabuckthorn plantation and maintenance technology in Arhangay, Bulgan, Hentii aimags; vegetable plantation and maintenance in UB and Selenge aimag, and assistance to develop seabuckthorn juice standards. Trainings were conducted by the professional associations of each value chain. About 618 people were trained during the different meetings of whom 332 women. It can be considered that 50% of these trainees are from the 5 project aimags.

36. In order to meet the objective of the sub-component and have a meaningful impact on project's beneficiaries, *the mission recommends the following actions to be implemented: (i) further identify financial and non-financial support needs for suppliers (farmers, herders, producers) such as capacity building, technological training, marketing, and small investments to be guaranteed by the LGF; (ii) assistance in building win-win agreements between large companies and project-supported small farmers, herders, producers, SMEs and cooperatives, and (iii) develop linkages with other projects that are working in the same areas and/or products so as to complement project's activities carried out at suppliers' level. Finally, the mission also recommends an exposure visit to be organized in a neighboring country to benefit from their experience with regards to SMEs and value chain development (Vietnam).* Apart from the VC coordinator, participants could include VC working group's members, members of 3 selected VCs professional organizations, and representatives from target beneficiaries.

### **Sub-component 2.2 - Small and Micro-Enterprises Development (satisfactory)**

37. This sub-component includes two main activities: (i) Small and Medium Enterprises and Cooperatives Development, and (ii) Micro-Enterprises Development through women's groups support and strengthening. The performance of the small and micro-enterprises development is rated as **satisfactory (5)**.

38. **Small and Medium Enterprises and Cooperatives Development.** During the period 2014-2016, 75 entities (small and medium enterprises as well as cooperatives including women's groups add PHGs supported by the project that have graduated from group to cooperative) are to be supported through different training and capacity building as well as guaranteed by the LGF. As at June 30, 2015 35 entities have been supported by the project. Support includes: capacity building/training on use of computer and business plan development for 35 SMEs and cooperatives; milk hygiene training for 5 SMEs; unit cost determination 4 Cooperatives and small enterprises; experience sharing exposure visit for 8 SMEs and Cooperatives; on-line financial literacy and financial management training for 13 SMEs and Cooperatives, as well as compliance with international standards training (HACCP) for 10 SMEs and Cooperatives. Activities developed by these entities cover: milk processing wool cleaning, tea processing, vegetable processing, winter greenhouses construction, berries plantation, and meat and milk farming activities. The mission reiterates its recommendation that one of the most important selection criteria is backward linkages or the number of additional primary producers, farmers, herders that entities can include as suppliers as well as the type of training, capacity building and technological transfer these entities can provide to the new suppliers. *The mission also recommends to document success stories and lessons learned in the form of case studies for further knowledge sharing. The mission recommends to start the visits in project aimags to locate the 2016 potential SMEs and Cooperatives as soon as possible (during 4<sup>th</sup> quarter of 2015) with a specific focus on PHGs and women's groups that have graduated into cooperatives.* In order to ensure constant and higher quality of their production, *the mission recommends that training is to be provided to suppliers of selected SMEs and Cooperatives.*

39. **Micro-Enterprises Development.** As at June 30, 2015, the UMPSC has assisted communities to form 458 women's groups consisting of 2,850 women and 979 men in 45 *soums* of the 5 project aimags (127% of the revised target). All groups are women-led. Once formed, the UMPSC provides them with several trainings: (a) group formation and management (3,093 participants of whom 2,465 women i.e. 80%); (b) business development (1,319 participants of whom 1,214 women i.e. 92%); (c) technological training (640 participants of whom 596 women i.e. 93%), and (d) cooperative development (298 participants of whom 257 women i.e. 86% - still on-going). Training are provided by in-house trainers assisted with resource person from specific agencies or departments of line

ministries. In addition to these training for women's groups members, the UMPSC has also provided capacity training to *soum* facilitators and has organized a knowledge sharing workshop for *aimag* facilitators.

40. The mission attended the Women's Groups Annual Workshop held in Huvsgul *aimag* from June 24 to 27, 2015 and was impressed by the quality of production proposed by the 71 women's groups attending the workshop. During the presentation of their activities and discussions, women's groups have requested to benefit from additional training in: (i) business management and especially in cash management and recording of financial transactions; (ii) cooperatives financial management and services to be developed within a cooperative for its members, and (iii) technological training to further improve the quality of their production with a specific focus on marketing, packaging, and labelling. *The mission recommends the UMPSC to focus on the provision of the above-mentioned training to all groups formed since 2012.*

41. Considering the high demand from communities and local authorities seeking assistance to form women's groups, *the mission recommends to further contract the UMPSC to assist communities in the 50 soums to form 150 new women's groups.* Starting their formation and training from September 2015, these groups would be ready for the submission of their business plans and for financing by May 2016.

42. Following last year's recommendation, the project has initiated the rehabilitation of 13 workplaces in 13 different soums with a co-financing from the *soum* authorities. These workplaces constitute excellent opportunities to improve the production as well as the cohesion of groups/cooperatives. The mission commends the financial and technical involvement of local authorities. In light of the success of the 13 workplaces already financed and the need expressed by local authorities and women's groups from all soums to benefit from such a workplace, *the mission recommends that the 2016 AWP&B further finance the rehabilitation of workplaces in the remaining 25 soums.* In some rare *soums*, premises that could be rehabilitated are privately-owned. If the rehabilitation of a public-owned similar building would be much more expensive, the project should finance the rehabilitation of the private-owned building provided that a long-term lease agreement is signed between the owner of the premises, the local authorities and the women's groups.

43. In addition, to facilitate the marketing of women's groups produces and increase their visibility, *the mission recommends the project to finance the rehabilitation of a showroom in each project aimag centre.* These centres should be equipped with a computer and a specific webpage should be designed for each showroom, then aggregated in a website specific to project-supported women's groups.

44. Finally, the mission reiterates its recommendation to organize a study tour for both women's groups and PHGs' members in neighboring country (Inner Mongolia) to learn and share experience.

### ***Sub-component 2.3 - Loan Guarantee and Credit Line (satisfactory)***

45. **Institutionalization of the Loan Guarantee Facility (LGF).** As recommended by the 2014 MTR mission and the Follow-Up mission of March 2015, the LGF has further negotiated the roadmap for its merger with the State Credit Guarantee Fund (SCGF) under the auspices of the Ministry of Finance and Ministry of Food and Agriculture. To facilitate the merger, the SCGF is now holding a position with voting right at the LGF Technical Committee, assessing on behalf of the LGF all loan applications that require the LGF individual guarantee, while the LGF manual of procedures has been revised accordingly. Discussions with the SCGF senior management have confirmed the willingness from both sides for a smooth and successful merger. *The mission reiterates its last recommendations regarding the merger: (i) a due diligence exercise will be carried out by an audit/consulting firm acceptable to both IFAD and the GoM on the SCGF June 2016 financial statements and operational documents, and (ii) the LGF will be integrated in the SCGF as an appropriate structure within the SCGF organizational chart. This structure will have full financial autonomy to manage its resources, autonomous bank accounts, separate bookkeeping and activity reporting, in line with Mongolian Law.* Operating expenses of that structure will be borne by the SCGF. Resources that IFAD earmarked

under the PMPMD for the Loan Guarantee Facility (amount to be determined as at project completion) will be transferred to the bank account opened in the name of that structure and will be used to further guarantee women's, producers' and herders' cooperatives, micro-entrepreneurs benefiting from an Employment Generation Fund loan as well as small and medium enterprises and entities in rural areas. Current guarantees will be endorsed by the SCGF. The structure will have a national coverage. A Memorandum of Understanding and a detailed roadmap have been drafted and will be submitted to IFAD for no objection, before September 2015. The physical transfer of LGF assets and staff from its offices to the SCGF premises shall take place after the conclusion of the due diligence exercise.

46. **LGF guarantee portfolio.** The LGF issues two types of guarantees for a different target population: (i) portfolio guarantee for women's groups and herders' groups in the project five *aimags* as well as for micro-entrepreneurs benefiting from an EGF loan across the country (risk coverage of 80%), and (ii) individual guarantees for small and medium enterprises and cooperatives, as well as entities within the selected 3 value chains (risk coverage ranging from 50 to 60%). Loan guarantee agreements/contracts have been signed with 8 commercial banks. As at May 30, 2015 the outstanding guarantee portfolio amounts to MNT 1.12 billion representing 79% of the LGF current resources (MNT 1.4 billion), more than the 75% required for the transfer of additional resources. *The mission recommends to expedite the transfer of the additional tranche (i.e. USD 1.2 million) in the early days of 2016.* With the financing of additional women's groups, small and medium enterprises in the project 5 aimags and the access to finance for micro-entrepreneurs from the EGF fund, it is expected that the LGF will commit around MNT 6.7 billion (i.e. USD 3.4 million) by the end of the year, for a leverage of about 2:1.

47. Specifically for the EGF-funded micro-entrepreneurs, a portfolio guarantee agreement has been signed between the LGF Technical Committee, the Ministry of Labour (MoL - EGF's managing ministry) and the State Bank. As recommended by the MTR and Follow-Up missions, the LGF offers a nationwide 80% portfolio guarantee to micro-entrepreneurs accessing loans from the State Bank from EGF funds. As at June 30, 2015, the outstanding 2014-2015 loan portfolio amounts to MNT 1.7 billion with a correlative guarantee of MNT 1.36 billion. For the 2015-2016 period, MNT 13 billion have been earmarked by MoL with a correlative requirement for a portfolio guarantee amounting to MNT 10.4 billion. 20,000 brochures have been edited by the LGF for MoL and EGF staff at national, *aimag*, and *soum* levels as well as for micro-entrepreneurs. In 2015 and 2016, field trips will be organized in each aimag across the country. In addition, a joint-capacity workshop for MoF, MoL, MoFA and State Bank was scheduled for April 2015 but has been postponed to the second semester 2015. *The mission recommends the LGF to ensure that such a workshop is effectively organized to sensitize each stakeholder at all levels and ensure ownership of the mechanisms by them.*

48. **LGF credit lines.** The LGF manages two types of credit lines: one for women's groups and one for small and medium enterprises and cooperatives, of USD 1.3 million (outstanding loan portfolio of MNT 1.2 billion as at May, 2015) and 0.5 million respectively (not yet any disbursement).

49. Resources earmarked for women's groups financing are channelled through the State Bank and the Capital Bank. As soon as the resources will be made available, the LGF through the two banks will finance 216 women's groups (198 formed and trained in 2014 and 18 formed and trained in 2013, which business plans were not up to banks' requirements) also using the revolving fund in each of the two banks constituted by repayments from women's groups previously financed. Repayment rate from previously extended loans is 100%. *As agreed during the 205 Follow-Up mission, the mission recommends to expedite the transfer of USD 0.3 million for 2014-formed women's groups financing.*

50. Loan sources for SMEs and cooperatives should come from the JICA Two-Step Loan project, SMEs Development Fund or other project funds. These resources would be channelled through commercial banks. Since some of the project target beneficiaries are not eligible to the above-mentioned loan sources, the MTR and Follow-Up missions recommended to earmark USD 0.5 million as additional loan source. *The mission recommends to expedite the transfer of this amount.* As at June 30, 2015, 15 SMEs and cooperatives were selected in 2014 of which 4 have already been

financed (3 from JICA Two-Step Loan project and 1 from Chinggis Bonds) for a total amount of MNT 0.94 billion. The LGF has issued individual guarantees for a global amount of MNT 0.29 billion (for two entities). 4 entities are under approval (total loan amount requested of MNT 0.66 billion and correlative LGF guarantee of MNT 0.34 billion), 3 entities need to payback their outstanding loans (these 3 entities are previous women's groups transformed into cooperatives) before getting access to a new loan (total loan amount of MNT 0.4 billion and correlative LGF guarantee of MNT 0.2 billion), 3 entities have been rejected by banks (absence of legal entity, environmental issue, and blacklisted) and 1 has delayed the submission of its loan application by one year.

51. As agreed during the Follow-Up mission, the USD 500,000 credit line will be used to finance some of the 2015 selected SMEs and Cooperatives. Out of 74 entities visited, 5 have been short-listed by the PMU in each aimag. Final selection will include 4 entities in each aimag and 1 entity selected in 2014 but postponed, in total 21 entities covering different activity sectors. Once a loan application has been approved by the bank, the LGF Technical Committee will review compliance with project's objectives and selection criteria (same procedure as for JICA project). Selected entities are ready to send their loan application and business plan to selected banks which in turn wait for the Subsidiary Loan Agreement (SLA) to be signed with the LGF.

52. The LGF management is negotiating with 4 commercial banks (XacBank, Golomt Bank, State Bank, and Capital Bank) a SLA, stating among other clauses that the maximum interest rate to be charged by banks on loans to SMEs and Cooperatives is 8% and loan duration will be of 5 year including a 1-year grace period. Spread required by Golomt Bank, State Bank and Capital Bank to issue such loans at 8% is acceptable while negotiations are still being held with XacBank to reduce its spread. *The mission recommends the GoM to lend to commercial banks at 1.5% per annum i.e. the same interest rate used by GoM to finance State Bank and Capital Bank when financing women's groups. The mission recommends also to wrap-up with XacBank as this latter has the best experience of the four banks in term of SMEs financing.*

53. Finally, the mission reiterates its recommendations to build the capacity of LGF staff through an exposure visit to Korea (together with SCGF members, MoF and MoFA representatives).

Agreed action	Responsibility	Agreed date
15. Further identify non-financial and financial needs from suppliers in selected national value chains	LGF	From Sept. 2016
16. Assistance to build win-win agreement between suppliers and other stakeholders in selected value chains	LGF, Professional organizations	From Sept. 2015
17. Develop linkages with other projects dealing in VCs	LGF	On-going
18. Organize exposure visits on VC Development	LGF	From Sept. 2016
19. Document success stories in SMEs/Cooperatives financing	LGF	From Jan. 2016
20. Focus SMEs/Cooperatives financing on PHGs and women's groups cooperatives that have recently upgraded	LGF	From Sept. 2015
21. Provide refresher training in selected topics to all women's groups formed since 2012	PMU, UMPSC	From Sept. 2015
22. Merger between LGF and SCGF subject to due diligence on SCGF June 2016 financial statements and LGF operating as an appropriate structure within SCGF with complete financial autonomy for the management of its resources, separate bank accounts, reporting and bookkeeping in line with Mongolian Law	LGF, SCGF, MoF, FRC	Project completion
23. Expedite transfer of 2 <sup>nd</sup> tranche for LGF guarantee (USD 1.2 million)	IFAD, PMU, LGF	Jan. 2016
24. Ensure organization of workshop for LGF, MoL-EGF, and State Bank	LGF	Immediately
25. Conclude SLAs with commercial banks for 2015 selected	MoF, LGF	Immediately

SMEs/Cooperatives financing		
26. Negotiate with MoF an on-lending interest rate of 1.5% to commercial bank for credit line to SMEs/Cooperatives	LGF	Immediately
27. Organize exposure visits to Korea	LGF, SCGF	From Sept. 2016

## D. Project implementation progress

### Quality of project management

54. The quality of programme management is rated as **satisfactory (5)**. The PMU is now complete since the recruitment of the Value Chain Coordinator. Performance in the implementation of PMPMD activities has continuously improved with the recruitment of the women's groups, the pasture management and climate change adaptation and the value chain coordinators. The Value Chain Coordinator also ensures 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 or additional activities promoted under the project.

### Performance of M&E

55. The performance of M&E is rated as **satisfactory (5)**. Suggestions made by the follow-up mission in March 2015 were well followed up. The PMU has refined logframe, RIMS and M&E forms, while constructed outcome indicators and formulated the project M&E plan. The household and gender categorization included in M&E forms will be helpful to measure the number of poor households and women reached by the project. Currently, the PMPMD M&E system can be considered complete.

56. Nonetheless, the following could be considered for further improvements. First of all, alignment between logframe and RIMS needs to be strengthened. The PMU adopted indicators from RIMS online database to build their own RIMS, which is a good practice to align with IFAD corporate M&E practices. But the mission noted that indicators included in RIMS and logframe are often different in terms of designation and appraisal targets. Plus, outcome indicators were systematically constructed in logframe only, but not yet in RIMS. Variance on appraisal targets and achievement rates was also found among same RIMS indicators across different years.

57. For training-related indicators, achievement rates of hundred percentage were often encountered. Combined with the variance mentioned above, both might undermine validity of project M&E data. The mission suggests the PMU to better align logframe and RIMS in terms of nomination and appraisal targets of indicators. As for indicators with hundred percent achievement rates, the mission suggests the PMU to keep record of primary data to justify its validity. *The mission recommends the PMU to share the updated logframe after its alignment, and use that version during the completion review.* Changing appraisal targets without joint consensus (IFAD and PMU) is to be discouraged particularly during final phase of the project.

58. As for calculation of project beneficiaries, the mission found participants to national value chain trainings were included in project logframe. As these participants are from non-project areas, it is suggested to exclude indicators related to such trainings from project RIMS nor would participants to such training be calculated as project beneficiaries. It was informed by the PMU that most participants to project activities, such as trainings, in 2015 have actually participated other project activities in previous years. *To avoid double counting and keep the outreach figure at a realistic scale, the mission suggests to only include new participants instead of those who have already participated before.* The PMU though could keep tracking number of total participants to 2015 activities while clearly telling number of the new from repetitive participants.



### **Coherence between AWPB & implementation**

59. The coherence between the AWP&B and implementation is rated as **satisfactory (5)**. In 2013 and in 2014, the project has had a financial delivery rate above 75% while physical delivery rate was also extremely high, although varying for each activity. Such high financial and physical delivery rates indicate the coherence between the AWP&B and its actual implementation. Despite a 2015 AWP&B which budget is double the 2014 AWP&B one, the PMU is confident in its capacity to implement it and reach financial and physical delivery rates above 80%. This is reinforced by the position expressed by the GoM to use 100% of IFAD highly concessional loan resources. Situation as at end of June 2015 shows that both financially and physically, delivery rates are on right track.

### **Gender focus**

60. The performance of the gender focus is rated as **satisfactory (5)**. The Market Development component has a strong gender focus. Under the micro-enterprise development sub-component, the UMPSC has formed and trained 458 women's groups consisting of 2,850 women (74%) and 979 men. Some of these women's groups after graduation as a cooperative will also access an SME/Cooperative loan to expand their activities. Under the Pasture Management and Climate Change Adaptation component, through the division of labor among the households in different herding tasks and vegetable growing, women also benefit and have more opportunities to undertake income generating activities. There is a strong demand from women whose household is a PHG's member to create their own women's groups and to be included in the micro-enterprises development sub-component. *The mission recommends the project as well as NGOs responsible for monitoring PHGs and women's groups to ensure such opportunity is given to PHGs' women.*

### **Poverty focus**

61. The performance of the poverty focus is rated as **satisfactory (5)**. The average percentage of poor HHs in women's groups is 31% (varying among *aimags* and *soums*) based on the soum and bag government poverty list. Better-off women are also included in women's groups. The latter are essential in order to provide guarantees and collateral requested by commercial banks in complement to the 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, criteria for potential SMEs/Cooperatives to be selected include the number of poor suppliers (current and additional ones). The current approach to PHGs' 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, is approximately 27% in 2015. This poverty ratio varies greatly by each soum or PHG - as low as 4% and as high at 69% in PHG. On average, in 7 out of 15 soums PHGs have more than 30% of poor members.

### **Effectiveness of targeting approach**

62. The performance of the effectiveness of targeting approach is rated as **satisfactory (5)**. 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. Women's groups membership is cross-checked with the list of poor households at *soum* level ensuring that they are effectively included in the project activities.

63. From an M&E perspective, it was found that household and gender categorization was included project M&E forms. It is then easy to tell number of poor herders and women reached by project interventions, which also provide a way to weight effectiveness of the targeting approach.

## Innovation and learning

64. The performance of innovation and learning is rated as **satisfactory (5)**. The mission noticed the project is endeavoured for knowledge sharing within project areas. For instance, knowledge bags were shared among PHGs, each of which contains various guidelines on pasture management, cooperative management, along with manuals for veterinary and livestock raising technique. Managed by soum facilitators, the bags were numbered and rotated among all herder group members to ensure equal opportunities of learning. For better knowledge sharing at the final project phase, the mission would like to advocate, continuously, a workplan to systematize learning and knowledge sharing among both project and non-project soums. Similar suggestions were already made during the 2015 follow-up mission. The mission would also like to suggest the PMU to formulate a few cases studies recording experiences and lessons on sustainability and impacts related to PHGs, women groups, value chains and LGF modules. In complement to quantitative data, these could help illustrate project impacts from a qualitative perspective.

## Climate and environment focus

65. The overall performance of environment and climate change adaptation is rated as **satisfactory (5)**. While the improvement in the pasture conditions in the project target area is not yet studied thus no evidences presented, herders anticipate at least moderate improvement of the pasture condition after enhanced pasture management practices they have been adopting since 2014. Improved assets for climate adaptation proves to have empowered beneficiaries to mitigate and prevent from climate impacts. During the final year of the project, more focus can be made to improving resilience to greater scale of climate shocks and disasters.

Agreed action	Responsibility	Agreed date
28. Share updated revised logframe and ensure its utilization during project completion mission	PMU	Immediately and on-going
29. In training, avoid counting participants that have already attended previous training	PMU, UMPSC, AGROM	Immediately
30. Further support inclusion of PHGs in value chain development component	PMU, UMPSC, AGROM	Immediately

## E. Fiduciary aspects

### Quality of financial management

66. The performance of financial management is rated **moderately satisfactory (4)**. The overall financial management (FM) arrangement complies with its Financing Agreement and the funds received have been used for intended purpose. Financial management duties are segregated within the PMU. The PMU chief accountant maintains up-to-date financial records of transactions through accounting software named "Aclous". The accounting guideline and Project Implementation Manual were in place but certain amendments were recommended by the auditor to ensure compliance with the newest Mongolian Accounting Act. The mission urged the PMU to update it accordingly.

67. The PMU has also demonstrated the due attitude in pursuing further improvements by proactively followed up with most of recommendations related to fiduciary aspects made by previous MTR. There is only one remaining issue that on usage of interest income accumulated under the DA (USD 46,030.46) and guarantee funds (USD 41,945). The mission reiterates the MTR recommendation to properly use the interest income for project operations and activities related to scaling-up of the guarantee fund. The mission also urged the project to have stipulations on usage of accumulated interest incomes in the accounting guideline and PIM.

68. The 2015 AWPB approved by IFAD in March 2015 projected USD 3.8 million (equivalent to MNT 7.2 billion) as the total target. However, the total budget was strained due to a transversal budget cut of 15% issued by the Mongolia's Parliament at beginning of the year. The project still hesitated in full delivery although verbal reassurances were gained from MoF during the follow-up mission. At the

request of the GoM, the 2015 AWP&B has been signed by IFAD CPM confirming the no objection provided electronically in March 2015.

### **Acceptable disbursement rate**

69. The performance of disbursement is rated **moderately unsatisfactory (3)**. In accordance with the IFAD Corporate Project Disbursement Profile (PDP), the PMPMD actual disbursement rate of 54% (against 19% at June 2014) represents 63% of the PDP benchmark. By component, the actual disbursement rates for IFAD loans are: 49% for the Market Development component (against 1% at June 2014); 49% for the Pasture Management and Climate Change Adaptation component (against 35% at June 2014), and 53% for the Project Management and Policy Dialogue component (against 26% at June 2014). The sharp increase of the financial disbursement rate for component 1 is commendable. Despite these impressive increases, it is unlikely that the project will reach 100% disbursement rate upon project completion. The project has developed a budget forecast for 2015-2016 and optimistically targets on 45% of total loan proceeds to be disbursed in upcoming 14 months.

70. The MoF opened two separate Designated Accounts in USD for IFAD loan and GEF grant. At the time of the mission visit, the balance of the DA for IFAD Loan stood at USD 602,202.67, while the balance of the DA for GEF grant stood at USD 118,428.42. As of 22 June 2015, the accumulative expenditures for IFAD loan has reached USD 5,895,945.95, including USD 1.5 million as the initial deposit and two pending WAs for replenishment (No. 14 and No.15) in amount of USD 396,294.60, all of these together equivalent to 54% of total loan proceeds. A sharp rise has also witnessed for GEF grant, totally 8 WAs valued at about USD 925,920.87 which have all been disbursed by IFAD, accounting for 62% of total allocation. The mission urged close monitoring of the DA to avoid stagnant of funds. The PMU should prepare WA for replenishment on quarterly basis when 20% of the initial deposit is used, or at intervals of 3 months.

71. The mission drew attention to the PMU that timely replenishment of the DA is crucial in view of imminent project completion by September 2016 to ensure timely financial closure of account by 31 March 2017. All project activities are required to be concluded by project completion date. The eligible expenditures include: (i) payments made or due for activities concluded prior to the project completion date; and (ii) small amount of agreed winding up expenses incurred after the completion date, such as auditor's fees, limited operating costs, trainings and workshops for project completion, PCR report preparation, will be considered eligible.

72. The mission also reminded the PMU on the recovery of the Designated Account. The recovery will begin when the undisbursed balance reached USD 3 million which is equal to twice of the amount of initial deposit to the DA. In this connection, the mission urged the project to take necessary measures for completion, key activities such as: (i) draft project final completion report and conduct related surveys; (ii) prepare a detailed projection on winding up fees to be submitted to IFAD for non-objection, and (iii) work on the recovery plan for non-objection by September 2015 .

73. The LGF reported to the mission they have provided over 75% of guarantee funds received to commercial banks who extended loans to project target groups including SMEs, Women's groups and Government EGF individuals and the condition for submission of 2<sup>nd</sup> tranche as stipulated in the LTB has been met. The mission noted that the planned withdrawal amount, approximately in amount of USD 1.2 million, was not included in the approved AWPB for 2015 and consequently recommended the disbursement shall be planned carefully in the 2016 AWPB.

### **Counterpart funds**

74. Counterpart funding of the project is rated **satisfactory (5)**. The mission commends timely and adequate mobilization of counterpart funding by the project, including government contribution through tax exemption (USD 122,227), in-kind contribution from project beneficiaries. In addition, the project has successfully leveraged resources from Employment Generation Fund (EGF), SME Fund and JICA's two-step loan facility and ADB ARD projects for the financing of loans extended to SMEs, cooperatives, women's groups, and micro-entrepreneurs.

### Compliance with loan covenants

75. Compliance with loan covenants is rated **satisfactory (5)**. Most of the loan covenants have been or are being complied.

### Compliance with procurement

76. Procurement is rated **satisfactory (5)**. The mission took note that procurement activities of the project are conducted in line with the procedures stipulated in the Mongolian Procurement Law and IFAD. The mission noted that the 2015 Annual Procurement Plan was approved by IFAD and it did not envisage any procurement over prior review threshold. The common procurement process for construction works and pasture management component are conducted through local competitive bidding, shopping, and community/PHGs contracting. The mission took random checks on procurement processes for purchasing goods and civil works and found relevant documents are traceable and completely filed.

77. At the time of mission visit, the PMU was organizing the procurement of another 60 units of small tractors as per 2015 Procurement Plan. The procurement will be through the same government framework agreement for which a non-objection was granted by IFAD.

### Quality and timeliness of audits

78. The quality and timeliness of the audit reporting is rated **satisfactory (5)**. The project submitted the audited consolidated annual financial statement for 2014 timely. The National Audit Office of Mongolia conducted audit for fiscal year 2014. An unqualified opinion on financial statements, Designated Accounts, and WA/SOEs was issued by the auditor who concluded that reviewed financial statements are in full compliance with the terms and conditions specified in the Financing Agreement and with International Audit Standards (IAS).

79. The quality of the Financial Reporting is mostly satisfactory. The auditor provided the management letter with a good set of information disclosing shortcoming of the project management in terms of internal control, and FM practises. Four general issues were raised including: (i) inconsistent classification of incurred expenses in 2014 Financial Statements, the equipment of early warning system were found categorized under 3A in 2013 but in Category 2 in 2014; (ii) the accounting policy indicated in the PIM needs update to reflect related amended Mongolian Accounting Act and Law; (iii) Beginning of Cash Balance on LGF was not reported correctly on the 2014 Financial Statements and at same time, there was no clear rule and procedure on usage of accumulated interests in amount of around USD 46,030, and (iv) there were no administrative logs on use of office supplies. The 2014 Audit Report has been received by IFAD on June 29, 2015.

Agreed action	Responsibility	Agreed date
31. Update and revise the Accounting guideline to reflect (1) the changes made in the Mongolian Accounting Act and related laws; and (2) usage of accumulated interest incomes and procedures.	PMU	By Sept, 2015
32. DA replenishment on quarterly basis	PMU	Continuously
33. Preparation for completion, key FM related activities such as:(i) prepare a detailed projection on winding up fees to be submitted to IFAD for non-objection; (iii) work on the recovery plan for non-objection	PMU	From Sept. 2015
34. Development of a withdrawal plan for remaining guarantee funds together with MOF and MOFA with elaborated timings and amounts to be made in 2016	PMU, LGF	By Sept. 2015 and continuously
35. Re-submission of 2015 AWP&B for IFAD initialization	PMU	Immediately

## F. Sustainability

### Institution building

80. The performance of activities related to institution building is rated as **satisfactory (5)**. In line with the GoM policy, groups formed under the project (PHGs and women's groups) are receiving training on cooperative development and management. The project and the two NGOs will assist these groups in their gradual and voluntary transformation from groups to cooperatives. This transformation entails several benefits, among other: access to financial services from commercial banks, and legal protection under the Law on Cooperatives. Access to these benefits will further contribute to the sustainable institutionalization of PMPMD-supported groups and cooperatives.

81. The participation of representatives of line ministries and local authorities at national, aimag and soum levels in training and capacity building activities contributes to the institution building and ensures the sustainability of project activities even after its completion.

### Empowerment

82. The performance of empowerment is rated as **satisfactory (5)**. Among the 458 women's groups formed and trained, more than 85% have women in group's key managerial positions. A large range of training activities have been extended to 5,552 individuals of whom 82% are women. The graduation of several women's groups into cooperatives is indeed the result of empowerment. According to women themselves, their status in their communities has greatly improved. Women's groups members have also learnt to become team members, work together, assist and support each other. Each women's group receive demand from other women in their communities to join and participate in the women's activities, indicating the good perception of the project's activities even outside the target beneficiaries. Women's groups are also considered as important players for the development of communities by local authorities as resulting in their strong financial commitment to co-finance workplaces for women's groups.

### Quality of beneficiary participation

83. The quality of beneficiary participation is rated as **satisfactory (5)**. When created, the UMPSC requests each women's group to implement its own revolving fund (RF) financed by annual contributions (the amount and periodicity of which are variable). As at June 30, 2015 the 458 women's groups formed and trained have contributed MNT 85.4 million (average MNT 180,000 per group in their RF). The RF resources are mainly used to extend loans at low interest rate to members (mainly social seeds). These RF contribute to the sustainability and cohesion of women's groups. For any investment provided by the project to PHGs (tractors, sprinklers, etc.) and women's groups (sprinklers, two-row seeding machine), the amount of which is above MNT 8 million, the recipient group has to implement a RF that is regulated by the PHG RF Guidelines issued by the project and approved by the Technical Working Group. Group's members have to contribute an equivalent of 80% of the cost of the equipment provided by the project (the 20% balance is considered as a grant from the project). RFs' resources are used by their members to extend productive and/or social loans at low interest rate to members. As at June 30, 2015, contributions from PHGs amount to MNT 652.2 million (96% of amount to be contributed) while contributions from women's groups amount to MNT 51.2 million (80% of the MNT 64.2 million to be contributed). For both PHGs and women's groups, the repayment rate for loans to members is 100%.

### Responsiveness of service providers

84. Responsiveness of service providers has been rated as **satisfactory (5)**. The two NGOs responsible for the Pasture Management and Climate Change Adaptation component (AGROM) and for the Micro-Enterprise Development sub-component (UMPSC) have been instrumental in the successful implementation of these components/sub-component. They have also been rated as satisfactory by MoFA monitoring and evaluation department. They have been extremely responsive to the recommendations formulated by the different missions either in the aide-memoire but also during

field trip visits. Other service providers that have been slow to join the project but that are now fully committed are the partner banks (Capital Bank and State Bank). A representative of each bank's headquarter joined the different IFAD missions to ensure a smooth implementation of the financing and guarantee agreements signed with the LGF. Issues highlighted by women's groups when dealing with banks especially with regards to the collateral they should provide the bank with in addition to the LGF guarantee have been addressed expeditiously.

### Exit strategy

85. The performance of the exit strategy is rated as **satisfactory (5)**. The compliance of the project with the GoM policy with regard to Cooperatives and the merger of the LGF with the SCGF constitute two key exit strategies for the project and its activities. Additional training will be provided by the project to both women's groups and PHGs' members to further facilitate the transformation of groups into cooperatives (so far 20 women's groups and 5 PHGs have been transformed into cooperatives). A specific "Roadmap to the merger" has been elaborated jointly by the LGF and the SCGF under the auspices of the MoF and the Financial Regulatory Commission. This roadmap aims at facilitating the smooth merger. Since the beginning of 2015, joint training and capacity building activities, public awareness campaign, and the revision of manual of procedures to facilitate joint operational activities have been implemented by LGF and SCGF which will also contribute to a successful exit strategy.

86. During the mission's field visits, several PHG members, women's groups' leaders and *soum* officers mentioned that should the government discontinue the job of *soum* facilitators at project completion, his task can easily be taken up by livestock and breeding officers at *soum* level as they have been closely integrated in all project activities.

### Potential for scaling-up and replication

87. The potential for scaling-up and replication is rated as **satisfactory (5)**. Scaling-up and replication will derive from the exit strategy selected by the project for the LGF. The resources that were earmarked by IFAD after the MTR to the guarantee fund (amount to be determined at project completion) will be transferred to the new structure at the SCGF after the merger. This new structure will have financial autonomy to manage these resources and will be able to further extend guarantees to women's and PHGs cooperatives, micro-entrepreneurs financed under the EGF, small and medium enterprises as well as cooperatives in rural areas across the country.

## G. Other

### Physical/financial assets

88. The overall performance of activities related to physical/financial assets is rated as **satisfactory (5)**. Assets provided by the project to PHGs were in line with their needs. Any asset provided to PHGs the value of which was above MNT 8 million triggers the creation of a Revolving Fund managed by PHGs in which 80% of the value of the asset will accumulate and be used for on-lending purposes among PHGs members. The project also ensures that PHGs are able and willing to maintain these assets. When assets proposed by the project are not efficiently used by PHGs, the project took the decision to reallocate them to women's groups (sprinklers) under the same terms and conditions. PHGs' ownership of assets provided by the project is greatly improved by this financial mechanism. LGF financial assets are constantly monitored by the LGF unit to determine its level of maximum liability and current outstanding liability. LGF Financial resources/assets are also generating financial income used to cover LGF operating expenses with the remaining balance being capitalized in the LGF resources.

### Food security

89. The performance of food security is rated as **moderately satisfactory (4)**. Annual Outcome Survey (AOS) was organized in 2014. It was the first practice of PMPMD to measure project outcomes. Nonetheless, given outcome indicators were not systemically constructed until 2015,

effects of the measurement could be undermined. Plus, it was found the PMU is still unclear regarding sampling and household selection criteria. In AOS 2014, only sampling process, instead of criteria, is informed. Given the AOS 2015 is now planned in October 2015, the PMU is now requesting supports from IFAD, particularly in regards to clarifying ways to select treatment and control groups. Meanwhile, the mission also suggests the PMU to consider organizing outcome/impact surveys in prior to completion reviews in 2016, so as to provide richer information on outcome/impact level results.

#### **Quality of natural asset improvement and climate resilience**

90. The performance of quality of natural assets improvement and climate resilience is rated as **satisfactory (5)**. While the newly introduced simplified pasture monitoring method (photo monitoring) looks promising to cover broader areas and help decision making process, no evidences or results of pasture condition assessment was provided by the time of the mission. PHGs express that the pasture conditions are improved seeing from the number of plant species and height of grasses, but the experiment period is too brief to scientifically prove its effectiveness. On the contrary *soum* weather officers found no evidence of pasture improvement.

91. As shown in the snowstorm hit Bulgan *aimag* in April 2015, fencing for hay making areas, hay storage construction and weather information dissemination system organically worked well and better prepared herders for this weather-induced disaster. Climate resilience of herders have been definitely enhanced through the investment on adaptation measures while there is more room to further improve resilience by enlarging the scale of investment (ex. number of shelters, size and number of hay storage, maintenance of mobigator and expansion of battery capacity).

#### **Policy Dialogue**

92. The performance of policy dialogue is rated as **satisfactory (5)**. As a direct result from the project and the LGF performances, the Mongolian Law on Guarantee which stated that the maximum risk percentage a loan could be guaranteed by a guarantee fund was 60%, will be modified to allow for an 80% maximum risk coverage for poor households. In parallel, the EGF which loans had a ceiling of MNT 5 million will also increase that ceiling as a result of the MNT 10 million maximum loan possibility under the PMPMD.

93. Sustainability of pasture management practices will be largely relying on sectoral policies that support strengthened PHGs and enable continuing training for their knowledge and skills. In the context of Mongolia and given the importance of herding in the country's culture and economic activities, it is highly recommended to open up such discussions on policy measure to strengthen PHGs and sustainable pasture management at various levels. This will result in generating recommendations to coordinate between cooperatives and PHGs in the long term. *The mission highly recommends to conduct policy studies on an innovative mechanism such as PHG-cooperatives, how the two could co-exist without transforming PHGs to cooperatives, or possibilities of special regulations on PHGs. In an effort to ensure sustainability of the project, sufficient budget should be committed to present and discuss findings of policy issues and papers through workshops at various levels with the support of short-term consultants.*

#### **H. Conclusion**

94. Substantial progress has been achieved in the implementation of all components and sub-components, with value chain development sub-component still lagging behind due to its late start. High potential is already observed for the scaling-up of many activities beyond the project area and impact on livelihoods for poor rural households has been positively assessed by the mission during its field visits. Effectiveness of the targeting of women and poor households, herders and producers/farmers is also satisfactory. Financial commitment from local governments to facilitate the strengthening and capacity building of women's groups and PHGs paves the way to long-term sustainability of project-supported activities and assets. The project enjoys high physical delivery rates

for most of its activities. However, financial delivery rate remains below IFAD project standards when considering time elapsed.

95. The intention of the GoM is to complete project activities and fully disburse IFAD Loan and GEF Grant. However considering the remaining time before project completion (15 months before September 2016) and the financial projections for project disbursements, it is unlikely that both the IFAD Loan and the GEF Grant can be fully disbursed by September 2016.

96. Consequently, the mission was informed by the GoM that the latter intends to develop a twofold strategy: (i) submission of a request to obtain a one-year extension for the project activities. This request shall be submitted to IFAD during the 3<sup>rd</sup> quarter of 2015. This extension would enable the consolidation and sustainability of institutions and activities implemented under the project (women's groups/cooperatives, PHGs/cooperatives, Pasture Management Planning, value chain development), the maximization of impact for project beneficiaries and a scaling-up/replication opportunity for some activities outside of the project *soums* in the 5 project *aimags*. Although IFAD Management has been reluctant to grant project extension, should such an extension be awarded, only successfully implemented activities would be considered during these additional 12 months, such as: (a) financial and non-financial support to rural communities for the creation of new women's groups; (b) identification of SMEs and Cooperatives in 5 project *aimags* for both financial and non-financial support from the project with a specific focus on assistance to suppliers; (c) financial and non-financial support to herders communities for the creation of PHGs; (d) financial and non-financial support to suppliers with a view to facilitate win-win agreements with other stakeholders of selected national value chains, and (e) non-financial support to selected value chains national organizations to ensure suppliers are fully considered in their development plans; and (ii) possibility of a geographical extension of the project area in another aimag as soon as possible. This new *aimag* should be bordering one of the 4 *aimags* IFAD has been working for the past 12 years (Hentii, Bulgan, Arkhangay, and Huvsgul) in order to benefit from their experience and easy transfer of competence and skilled staff. The same few activities above-mentioned should also be considered for implementation in the new *aimag*. Should this option be selected, IFAD no objection would be required on the selection of the new *aimag* made by the GoM.

97. Notwithstanding the request for an extension of the project activities, a follow-up and implementation support mission will be fielded by IFAD around May 2016 in preparation for the Project Completion Mission.

98. As a follow-up of the discussion held during the Follow Up mission in March 2015, the Mission informed the GoM that IFAD is in the process of determining the countries that will receive financial support from IFAD during the period 2016-2018. In this regard, the Mission urged the GoM to inform IFAD as soon as possible whether it is planning to request for financial support during that period.

99. The Government of Mongolia and the mission agreed on the above recommendations and actions to be taken.



## Appendix 1: Summary of project status and ratings

### Basic Facts

Country	Mongolia	Project ID	1455 [1100001455]	Loan/DSF/Grant/ASAP FI No.	1000004018, 1000004019
Project	Project for Market and Pasture Management Development (PMPMD)			Top-up Loan/DSF/Grant/ASAP FI No.	
Date of Update	22-Oct-2015				
Supervising Inst.	IFAD				
No. of Supervisions	2	No. of Implementation Support/Follow-up missions	5		
Last Supervision	03-Jul-2013	Last Implementation Support/Follow-up mission	06-Mar-2015		

USD million Disb. rate %						
Approval	11-May-2011			Total financing	18.36	
Agreement	17-Jun-2011	Effectiveness lag	3.6	IFAD Total	11.48	
Entry into force	26-Aug-2011	PAR value	-----	IFAD loan	11.48	49
First disbursement	21-Dec-2011			DSF grant		
MTR	05-Jul-2014	Last amendment	14-Apr-2014	IFAD grant		
Original completion	30-Sep-2016	Last audit	19-Jun-2015	ASAP grant	0.00	0
Current completion	30-Sep-2016			Domestic Total	5.38	
Current closing	31-Mar-2017			Beneficiaries	1.83	0
No. of extensions	0			National Govern	0.90	3
				Dom. Fin. Inst.	2.66	0
				External Cofinancing Total	1.50	
				GEF	1.50	26

### Project Performance Ratings

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

6. Potential for scaling up and replication	5	5
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#### B.5 Justification of ratings

Disbursement rate is low (54%) compared to project time elapsed (75%). 2015 AWP6B financial delivery rate as at July 2015 is around 40% (with commitments it reaches around 60%). Even when considering a 100% disbursement rate for the 2015 AWP6B and 2016 AWP&B, there will still be a balance of funds available of around USD 1 million. When considering a more realistic 80% financial delivery rate for the two AWP&Bs, the balance of funds available at project completion could range from USD 1.7 to USD 2.0 million. Project is also under pressure from GoM to disburse 100% of IFAD Loan and GEF Grant. Appropriate actions for additional activities that were not planned in 2016 AWP&B have been agreed to reduce the balance of funds available at project completion.

### Overall Assessment and Risk Profile

	Last	Current
C.1 Physical/financial assets	4	5
C.2 Food security	4	4
C.3 Quality of natural asset improvement and climate resilience	4	5
C.4 Overall <b>implementation progress</b> (Sections B1 and B2)	4	5

#### Rationale for implementation progress rating

All activities are in line with the project's objective. Poverty and gender focus as well as the targeting approach are contributing to effectively reach poor herders, households, women and young people in soums or in aimag centers. The project has contributed significantly, through policy dialogue, to a change in several policies: The Law of Guarantee will be amended to increase the level of risk coverage by a Guarantee Fund up to 80% (60% before), to take into consideration the experience of the PMPMD LGF and its risk coverage for PHGs and women's groups. The loan amount a micro-entrepreneur can receive from the EGF will be increased from MNT 5 million to MNT 10 MNT (or even MNT 15 million) as a result of the project's financing of women's groups.

C.5 Likelihood of achieving the development objectives (section B3 and B4)	4	5
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#### Rationale for development objectives rating

After a slow implementation process mainly resulting from the time needed to internalize an innovative approach such as the guarantee facility for which an institutional and regulatory framework was not existing at project's inception, or an innovative concept such as value chain development, for which experience and skills were not available in the country, the project has reached in 2015 its momentum in terms of implementation of all activities. Despite the slow start, substantial positive impact has already been assessed especially for PHGs, Pasture management Plans integrated in soum-wide ones, women's groups, transformation of groups into cooperatives, and empowerment. In addition, local authorities are now considering PHGs and women's groups are thrust for the local economy and they have already been co-financing the rehabilitation of workplaces for women's groups at soum centers to facilitate their activity.

#### 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. Additional activities to minimize the balance of funds available at project's completion will be introduced in the 2016 AWP6B (some of them will have to start during the 2nd semester of 2015). Outputs/outcomes will be modified accordingly.
Sustainability	No major risk identified.

### Proposed Follow-up

Issue / Problem	Recommended Action	Timing
Project completion report	Assistance to the project for its Project Completion to be provided by IFAD through a Project Implementation Support mission composed of: (i) Pasture Management specialist; (ii) Rural Finance and VC development specialist (and Team Leader); (iii) financial specialist, and (iv) M&E specialist.	April 2016

#### Additional observations

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

Narrative Summary	Verifiable Indicators	Means of Verification	Assumptions/Risks
<b>Goal</b>			
Empower poor rural women and men in the targeted aimags and soums to achieve higher incomes and sustainable improvements in their livelihoods.	Poverty incidence of project area. Improvements in household assets ownership index Reduction in prevalence of child malnutrition Improvements in household income	National poverty statistics Baseline and completion impact surveys (including RIMS)	Political stability Major shocks or crises which could weaken project effects do not occur; or are sufficiently mitigated
<b>Outcome level</b>			
<b>Component 1. Market development</b>			
<b>Component 1.1 Value chain</b>			
Herders and rural poor in Soum and Aimag centres participate in value chains and earn premium incomes through direct sales of quality produce to local and national buyers.	1.1.a. 30% increase in producer HHs sales and net revenue 1.1.b. # of farmers reporting production/yield increase 1.1.c. # of farmers adopting recommended technologies	Component report Annual outcome survey	Political stability Major shocks or crises which could weaken project effects do
<b>Component 1.2. SME development</b>			
Small and medium enterprises have been established or strengthened through project guaranteed loan and household income has improved by a).employment creation and b) value addition	1.2.a. # of enterprises operating after three years 1.2.b. # of SMEs increasing production type and amount 1.2.c. Improvement in SME net revenue by 20%; 1.2.b. # of jobs generated by small and medium enterprises 1.2.c. Improvement in household income by 20%;	Small enterprise feasibility studies Supervision reports Annual outcome survey	Macro-economic stability and growth Effective poverty-reduction policies Monetary policies contain inflation at single digit levels.
<b>Component 1.3. Micro enterprise development</b>			
Joint liability groups, mostly with women, use micro-finance to diversify household economic activities	1.3.a. # of Women's Groups functional after 3 years 1.3.b. % of beneficiaries reported owning a non-livestock enterprise (self-supported) 1.3.c. At least 50% of borrowers previously had not received business loan 1.3.d. % of women's group members increased savings mobilized 1.3.e. Improvement in household income by 20%;	Service provider's report Annual outcome survey Supervision reports	
<b>1.4. Loan Guarantee Fund</b>			
Financing institutions have expanded and consolidated their lending to the target group with the initial help of project guarantees	1.4.a Financial institutions participating in the project 1.4.b.Amount of actual risk funds called in 1.4.c. Repayment performance final borrowers and PFIs		

<b>Component 2. Pasture management and Climate change adaptation</b>			
<b>Component 2.1. Pasture Management</b> Pasture Herders Groups and herder households in the project area plan and manage livestock and pastures in a more sustainable manner	2.1.a. # of PHGs operational after 3 years	Service provider's report	
	2.1.b. Improvement in pasture health	Soum facilitators' report	
	2.1.c. % of HHs increased seasonal movements compared to the baseline	Service provider's report	
	2.1.d. Ha improved through soil/water conservation method	Annual outcome survey Project progress report	
<b>Component 2.2. Climate change adaptation</b> Vulnerability of herders in the project area to climate change impacts is reduced.	2.2.a. # of functioning infrastructure	Soum facilitators' report	
	2.2.b. # of herding HH/livestock with access to water	Project progress	
	2.2.c. # of HH/livestock with access to soum hay and fodder fund	Supervision report	
	2.2.d. % of PHGs that increase hay-making and fodder production to the original group target level	National and aimag statistic report	
	2.2.e. # of PHGs adopting recommended technologies	Annual outcome survey	
	2.2.f. Number of small farmers reporting increased herd size.	Report of <i>Otor</i> area Administration	
	2.2.j. Livestock mortality & livestock diseases	Aimag and soum statistic	
<b>Component 3. Management</b>			
3.1. The project has been implemented in a timely and cost effective manner, reaching the target group	3.1.a. 70% of project beneficiaries is involved in the project activities	Project progress report	Political stability
	3.1.b. % of poor and women among beneficiaries		
<b>3.2. Policy Support</b> Government policy and support service capacities in sustainable extensive development have been strengthened and relevant legislation is properly implemented and monitored	3.2.a. Number of group member hhs obtained spring and winter camp certificate.	Project progress report	
	3.2.b. At least 3 Aimags and 12 soums allocate budgets for direct support to PMPs;	Supervision report	

Output level			
<b>1.1. Value chain</b>	1.1.a. Number of individuals trained in production technology	VC component report Contracted NGO report	
1.2.1 Small and medium enterprises are provided guaranteed loan 1.2.2. SME Employee's knowledge and capacities is improved	1.2.1.a. 45 SMEs supported / received project guaranteed loan 1.2.2.a. At least 80% of biz plan financing requirements met (grants + bank credits/GF secured) 1.2.2.b. Number of employees trained	Component report; Supervision report; LGF report; Contracted trainer's report;	
<b>1.3. Micro-Enterprise Development</b> 1.3.1. Women's group formed and strengthened 1.3.2. Eligible households have access to project loan with guarantees. 1.3.3. Knowledge of women and rural residents increased in loan access and business skill 1.3.4. Self- help groups are encouraged to form cooperative	1.3.1.a. 360 Self-help groups with 3,600 members established 1.3.2.a. Number of guaranteed loan 1.3.2.b. Amount of bank loans 1.3.3.a. Number of trainees in loan access and business skill 1.3.4.a. Number of trainees in cooperative development 1.3.4.b. Number of formed cooperatives	Service provider's report LGF report Bank report Contracted trainer's report Service provider's report Supervision report	
<b>1.4. Loan Guarantee scheme</b>	1.4.1. Disbursed loan amount /group/ 1.4.2. Disbursed loan amount /enterprise/ 1.4.3. Project guarantee amount /enterprise/ 1.4.4. Staff of financial institution trained	LGF report Bank report Supervision reports	Financial sector recovers fully

<b>Component 2. Pasture management and Climate change adaptation</b>			
<b>2.1. Pasture management</b>			
2.1.1. Effective pasture management organizations created and pasture management plans formulated and approved	2.1.1.a. 3,000 herding HHs joined in 120 PHGs 2.1.1.b. # of PHGs with women in leadership position 2.1.1.a. 120 Pasture management plans developed 2.1.1. b. At least 50% of PMP of herder groups integrated in the soum land management plan	Soum facilitators' report Service provider's report Project progress Supervision report	
2.1.2. Knowledge of herders and local government to adapt to climate change increased and improved enabling environment to reduce vulnerability of herders to the impacts change	2.1.2.a. # of PHG members and local authorities trained in pasture management training 2.1.2.b. 500 herders involved in climate change training 2.1.2.c. 30 young adults involved in vocational training 2.1.2.d. # of trainees in animal health and breeding		
<b>2.2. Climate change adaptation</b>			
Investment completed in activities identified in PMPs that will increase the resilience of herders to climate change impact			
2.2.1. Livestock water supply is improved	46 deep engineering wells constructed or rehabilitated	Soum facilitators' report	
2.2.2. Hay making areas protected	Fenced and protected hay making areas/ha	Project progress report	
2.2.3. Winter shelters constructed	# of winter shelter constructed	Procurement report	
2.2.4. Fodder and hay reserves created	5 soums' hay and fodder storage constructed or improved	Supervision report	
2.2.5. Poor households supported with renewable energy facilities	30 poor hhs provided with renewable energy facilities		
2.2.6. Water harvesting points constructed or rehabilitated	# of constructed water harvesting points		
2.2.7. Weather automatic stations provided	# of soums provided with automatic weather station		
2.2.8. Rodent control activities implemented	Rodent control activities implemented in 15 soums		
2.2.9. Hay improve technology introduced	# of ha improved hay making area		

<b>Component 3. Management</b>			
3.1. Project management structure established expeditiously; 3.1. 1 Project staff recruited on time; gender considerations taken into account; 3.1.2.AWPBs established and approved in a timely manner; 3.1.3. Performance contracting with implementing agencies 3.1.4. Timely flow of funds 3.1.5. Appropriate and timely reporting, annual audit reports completed;	# of meetings of Steering committee; % of female staff # of meeting Technical working groups % of funding for contractual services % of financing performance of the project # of annual report and auditing report	Project progress report Supervision report	
<b>3.2. Policy support</b>			
3.2.1. Workshops conducted 3.2.2. Study materials disseminated through various channels	# of workshops supported by project # of government officials trained # of printed and distributed booklet and	Project progress report Agricultural Sector report Supervision report	





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

Action Area	Action Agreed	Date	Whom	Progress
Project Implementation	Finance 150 additional women's groups	From Sept. 2015	UMPSC, LGF, PMU	
	Capacitate 45 additional PHGs	From Sept. 2015	AGROM, PMU	
	Finance workplaces in all soums and exhibition halls in 5 aimags	From Sept. 2015	Soum facilitators, soum/aimag governors, PMU	
Outputs	Increase % of women in PHGs decision-making bodies	Immediately	AGROM, PMU	
	Ensure PHGs RF stay at level of PHGs	Immediately	AGROM, PMU	
	Enhance skills on photo monitoring techniques and use for pasture management	Immediately	AGROM, PMU	
	Replicate practice of larger grazing reserves w/ appointed herders as guards	Immediately	AGROM, PMU	
	Identify non-financial and financial services needed by selected VC stakeholders	From Sept: 2015	LGF	
	Assistance to build win-win agreements between suppliers and VC stakeholders	From Sept. 2015	LGF, Professional organizations	
	Focus SMEs/Cooperatives financing on PHGs and women's groups recently upgraded as cooperatives	From Sept. 2015	LGF	
	Finalize MoU and Roadmap for merger between LGF and SCGF	Project completion	LGF, SCGF, MoF, FRC	
Sustainability				
Fiduciary Aspects	Update Accounting guidelines to reflect changes in the Mongolian Accounting Act, and use of accumulated interest incomes and related procedures	By Sept. 2015	PMU	
	DA replenishment on quarterly basis	Continuously	PMU	
	Re-submission of 2015 AWP&B for initialization	Immediately	PMU	
Other				

**Implementation Status of Project Support Mission, March, 2015 and Mid-Term Review Mission, July, 2014**

No	Agreed action	Responsibility	Agreed date	Implementation status
	<b>Monitoring &amp; Evaluation.</b>			
1	Update project logframe with latest project structure, align project logframe and RIMS indicators	PMU	Immediately	Updated Logframe was drafted and it will be finalised in discussion with IFAD mission.
2	Construct project outcome indicators correlated with project outputs and latest structure	PMU	Immediately	Outcome indicators are revised and will be finalised in discussion with IFAD mission.
3	Review and improve M&E data quality to tick out double counting of beneficiaries to the extent possible, and separate direct and indirect beneficiaries	PMU	Immediately	Under implementation. Issue is discussed with the local facilitators during the management workshop. M&E data collection tables are under improvement.
4	Review AOS sampling methodologies in view of the newly constructed outcome indicators, and implement 2015 AOS	PMU	Immediately	AOS 2015 is planned to conduct in October. Revised questionnaire and sampling methodologies will be reviewed by IFAD before the survey.
	<b>Effectiveness of targeting approach.</b>			
5	Update percentage of poor households in PHGs and WGs with 2015 data	PMU	Immediately	Updated.
6	Improve effectiveness of monitoring on number of poor households benefited from recently implemented activities, such as supplier trainings for the selected value chains	PMU	Ongoing	Under implementation. M&E data collection form has been improved in discussion with local facilitators.
	<b>Knowledge management.</b>			
7	Work out a plan of actions with clear timelines and methods included for sharing PHG related experiences among project and non-project bags/soums	PMU	May 2015	One day experience sharing activity is planned in all 15 PMCCA soums during the pasture management training in July to August.
8	Review training demands and necessity to organize additional trainings for project beneficiaries with resources reallocated from trainings don't take place as planned in 2014	PMU	May 2015	Training needs assessment is under progress.

	Loan Guarantee Fund			
9	<p><b>PMPMD LGF to extend guarantees for loans provided by commercial banks to the following target beneficiaries:</b> (i) women's groups formed and trained by the Union of Mongolia Production and Services Cooperatives (UMPSC) in the five project <i>aimags</i>; (ii) individuals financed from the Employment Generation Fund (EGF) resources irrespective of the <i>aimag</i>; (iii) Micro, Small, and Medium Enterprises (MSMEs), cooperatives, pasture herders' groups operating in the project <i>aimags</i> (agriculture and agriculture-related activities), and (iv) MSMEs, cooperatives and pasture herders' groups across the country but the activity of which is related to the following value chains: (a) milk and dairy products; (b) berries, and (c) vegetables. Eligible activities can include production, processing, storage, transportation, and packaging subject to having an effective and measurable impact on poor rural households (herders, farmers).</p>			<ol style="list-style-type: none"> <li>1. Implementation of credit line and portfolio guarantee as for the women's groups formed by the PMPMD is OK. Please see details in Annex 1 hereto.</li> <li>2. Implementation of portfolio guarantee for individuals of EGF has been started from 1<sup>st</sup> May 2015. So far the PMPMD LGF organized following arrangements: <ul style="list-style-type: none"> <li>- Portfolio Guarantee Contract for the loans financed from EGF was signed on 3<sup>rd</sup> April 2015 along with its detailed Action Plan between MOF, MOL and State Bank.</li> <li>- 5500 copies of brochures, prepared and published by the PMPMD LGF, for the portfolio guarantee have been distributed to 21 <i>aimag</i> and 6 UB districts Labour Divisions through MOL.</li> <li>- Half day workshop for capacity building on EGF portfolio guarantee amongst the Labour Divisions staff and State Bank staff in UB is being postponed from proposed late April till today due to structural changes in them. The PMPMD LGF is expecting to organize the workshop in early July together with MOL and State Bank with sharing the required cost.</li> <li>- The PMPMD LGF is doing a public awareness (distributing brochures and extra resources as agreed with MOL and MOIA) for the project target beneficiaries for milk, berries and vegetable producers with assistance of MOIA and professional federations.</li> <li>- The PMPMD LGF presented its Portfolio Guarantee activities with regard to EGF procedures together with MOL and State Bank to public event organized by MOL on 6<sup>th</sup> May 2015. In that event almost 500 individuals who wants to get loans from EGF lacking of collaterals have participated.</li> </ul> </li> <li>3. Implementation of individual guarantees for VC 15 entities selected in 2014 tends to gradually improve. So far totally 4 entities received loans from JICA and Chingis Bond in amount of MNT890.0 million, out of them 2 entities have been extended by individual guarantees (one is for February and another is for May) at amount of MNT215.0 million. 1 entity's loan in amount of MNT 500.0 million approved by both bank and JICA and at the moment its Environmental assessment is being clarified by MOE. 4 more entities are waiting for the decision of the Bank and thereafter JICA decision, their total requested loan amount is MNT 785.0 million.</li> <li>4. Implementation of individual guarantee for the target beneficiaries of nation-wide VC selected 3 fields is not yet started. So far the PMPMD LGF has taken following actions in this regard: <ul style="list-style-type: none"> <li>- 15,000 copies of brochures, prepared and published by the PMPMD LGF, have been distributed to 8 participant commercial banks, MOIA and professional federations of milk, seabuckthorn and vegetables.</li> <li>- Advertised the PMPMD LGF's loan guarantee through 2 national daily newspapers on 12<sup>th</sup> May 2015.</li> <li>- Informed the loan guarantees offered by the PMPMD LGF to all <i>aimag</i> Food and Agriculture Departments through the letter of Mr. Choi-Ish, DG of Strategic and Policy Dept of MOIA on 23<sup>rd</sup> April 2015.</li> <li>- At the moment, the PMPMD LGF is working with state CGF on entering into MOU and Service Providing Agreement in order to strengthen their collaboration with regard to</li> </ul> </li> </ol>

				the PMMPD LGF exit strategy. Once all documents are signed between Technical Committee and CGF, due diligence exercise of guarantee requests will be made by CGF and PMMPD LGF instead will pay its required operational costs. Also the PMMPD LGF and CGF will cooperate in capacity building program for targeted bank staff and public.
10	<b>PMPMD LGF and the CGF to elaborate a “Roadmap to the Merger”</b> inclusive of specific activities to be implemented and their timeline.			<p>At the moment, the PMMPD LGF is working with state CGF on entering into MOU and Service Providing Agreement in order to strengthen their collaboration with regard to the PMMPD LGF exit strategy. The proposed MOU is intended to be a primary document the Parties shall follow for their collaboration with ensuring a better ground/environment consistently with domestic legislation in regard of the PMMPD LGF Unit merges with Credit Guarantee Fund at the project completion. Accordingly the MOU sets following three frameworks:</p> <ul style="list-style-type: none"> <li>- Harmonization of guarantee legislations and regulations;</li> <li>- Knowledge and information sharing and capacity building;</li> <li>- Joint training in increasing public awareness for PFI staff and SMEs in UB and rural.</li> </ul> <p>The purpose of the proposed Service Providing Agreement is to regulate the Parties relations, that the CGF receives a guarantee request through PFIs from the target beneficiaries operate in the field of 1) Milk and dairy products, 2) Berries, 3) Vegetables with creating a value-add under the PMMPD, makes a due diligence and risk evaluation, and the PMMPD LGF pays the required operational cost to the CGF with regard of due diligence of guarantee request and increasing a public awareness in rural area through the CGF’s representatives in each aimags. The PMMPD LGF instead will pay monthly MNT1.4 million for the due diligence exercise and MNT 50.0 thousand for the representing the PMMPD LGF in aimags to the CGF.</p> <p>The draft version of above the Agreements are being reviewed by lawyer of MOF. We expect that once those get finalized, Technical committee and CGF will sign on it during the Mission.</p>
11	<b>To further divert part of the resources allocated for the issuance of guarantees to credit lines. Two different credit lines shall be envisaged:</b> (i) a credit line of about USD 300,000 to finance around 175 women’s groups formed and trained in 2014 and that will submit a business plan to partner banks before June 2015 (as a complement to funds available at banks’ level - revolving funds and available balance of funds from previous tranche), and (ii) a credit line for MSMEs, cooperatives and pasture herders’ groups within the project <i>aimags</i> . The amount of this credit line should be maximum USD 500,000 and would be disbursed in at least two tranches: the first one before June 2015 for USD 200,000 and the second one based on the effective demand for loans emanating from targeted MSMEs, cooperatives and pasture herders’ groups within the project <i>aimags</i> , to be assessed by the end of 2015.			<p>The PMMPD LGF has invited participant 4 banks including State Bank, Capital Bank, XacBank and Golomt Bank to submit the interest rate and margins, with regard to on-lend the additional USD 500,000 for VC selected SMEs. Due to the economic situation of the country is getting slowing down and the banks tend to stop its lending to SMEs, the marginal interest rate proposed by above banks are much higher, for example XacBank offered 7.5% as marginal interest rate while Golomt Bank 2.5% and State Bank 4-5%.</p> <p>The negotiation is still on-going and once the PMMPD LGF reached agreement with those 4 banks, it will submit the SLA to MOF for review and approval. We expect that the SLA would be finalized with 4 banks in August.</p> <p>The PMMPD LGF ideally targets following conditions of loans for additional USD500,000:</p> <ul style="list-style-type: none"> <li>- Interest rate for the beneficiaries will not exceed 8% per annum (more or less similar to JICA’s interest rate)</li> <li>- SLA interest rate (from MOF to Bank) would be 1.5%</li> <li>- The MOF and the Bank will have a co-financing portion of 90% (MOF) and 10% (Bank’s own resources)</li> <li>- Grace period would be up to 12 months;</li> <li>- Maturity would be up to 60 months (5 years)</li> <li>- Since the Bank will finance 10% of the loans, then the Bank’s offered interest rate will</li> </ul>

				<p>be at commercial terms (24-28% per annum)</p> <ul style="list-style-type: none"> <li>- Plus the Bank's profit will be 4-5% at the MOF's portion.</li> </ul>
12	<p><b>To invest the PMPMD LGF resources in secured financial instruments. Income generated by these investments should be used to:</b> (i) cover the PMPMD LGF operating expenses (including the possibility of recruiting an additional staff resource for the PMPMD LGF - see below); (ii) create a risk fund to cover pay-outs, and (iii) further capitalize the PMPMD LGF. The choice of the type of financial instruments and of financial institutions is vested with the Ministry of Finance.</p>			<p>Relevant people (MOF and MongolBank) from the Technical Committee of the PMMPD LGF have reviewed upon minutes of meeting selected 4 banks, which offered the highest deposit rate in 2014, on 25<sup>th</sup> March 2015. Accordingly, the order of Technical Committee was issued on 6<sup>th</sup> April 2015 with approving following issues:</p> <ul style="list-style-type: none"> <li>- USD 500,000 in XacBank at conditions of 16% per annum and 1 year deposit;</li> <li>- USD 500,000 in UB City Bank at conditions of 15.8% per annum and 1 year deposit;</li> <li>- USD 200,000 in Golomt Bank at conditions of 16% per annum and 6 months deposit;</li> <li>- USD 222,000 in Capital Bank at conditions of 12% per annum and current account.</li> </ul> <p>The deposit agreements with above banks were signed on 24<sup>th</sup> – 30<sup>th</sup> April 2015 and all resources have been transferred by the PMPMD LGF. Further the resources will be transferred upon MOF's first and the PMPMD LGF's second signatures as the State Secretary has authorized the PMPMD LGF Manager as the second signatory for payments under the PMPMD LGF accounts, at its order dated 24<sup>th</sup> April 2015 with ref number of A/88.</p>
13	<p><b>the increase of the PMPMD LGF staff by one person,</b> provided his/her costs can be covered by the income generated by the investment of the PMPMD LGF resources</p>			<p>The PMPMD LGF is decided to cancel the proposed additional staff for it, upon consultation with MOF and PMU, due to the proposed Service Providing Agreement with CGF. We believe that this is most effective and efficient for us considering of the proposed exit strategy, lack of experienced persons in the field of loan due diligence and loan guarantee in the country and responsibility for the sake of PMPMD LGF.</p>
14	<p>Amended PMPMD LGF Manual of Procedures.</p>			<p>As a commitment, IFAD provided its review and comments on the draft revised PMPMD LGF Manual of Procedures on before 15<sup>th</sup> March 2015. Accordingly the PMPMD LGF reflected all comments of IFAD and submitted a final version to the MOF lawyer for its review and comment. However during the PMPMD LGF several meetings with CGF's new management team, the CGF suggested to get the proposed collaboration framework formalized. Since the collaboration framework included 3 proposed area as mentioned above, the draft revised Manual of Procedures was needed to be for a while to get adopted in order to reflect the collaboration framework. Therefore, the revised Manual of Procedures has been needed to add following 3 issues:</p> <ul style="list-style-type: none"> <li>- CGF participation to TC of the PMMPD LGF as member with a voting right;</li> <li>- CGF will exercise a due diligence of guarantee requests that will be submitted by PFIs;</li> <li>- TC's TOR will include of duty for approving loans resources for the VC selected SMEs.</li> </ul> <p>Therefore, latest revised draft Manual of Procedures was sent to IFAD for their review and approval on 15<sup>th</sup> June 2015.</p>



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

FIRST LEVEL RESULTS													
	Results			Unit	Period ending: AWP&B	Dec-14 Actual    % of AWPB	Period ending: AWP&B	12/31/2014-01/06/2015 Actual    % of AWPB		Cumulative 06-2015 Appraisal    Actual    % of Appraisal			
Total Outreach	1.8.4	Communities receiving project services	Number	15	15	100%				15	65	433%	
	1.8.3	Groups receiving project services	Number	160	254	159%				480	574	120%	
	1.8.2	Households receiving project services	Number	6,600	10,620	161%				19,700	21,197	108%	
	1.8.1	People receiving project services	Number	15,100	22,051	146%				88,650	64,296	73%	
			Male	7,550	13,230	175%				44,325	32,240	73%	
			Female	7,550	8,821	117%				44,325	32,056	72%	
Component	Sub Comp												
Market development	Micro-enterprise development	1.3.1	Women's self-help groups formed and strengthened	Number	150	194	129%	0	na	na	410	454	111%
		1.3.2	People in women's self-help groups formed/strengthened	Number	1,200	1,624	135%	0	na	na	3,600	3,664	102%
				Female	960	1,259	131%	1	na	na	2,880	2,851	99%
				Male	240	365	152%	2	na	na	720	813	113%
		1.3.3	Women's self-help group with women in leadership position	Number	80	148	185%	0	na	na	324	383	118%
		1.3.4	Financial institutions participating in the project	Number	nt	6	n/a	0	na	na	nt	8	n/a
				Number	nt	50	n/a	0	na	na	nt	50	n/a
				Female	nt	20	n/a	0	na	na	nt	20	n/a
		1.3.5	Staff of financial institutions trained	Male	nt	30	n/a	0	na	na	nt	30	n/a
				Number	150	102	68%	0	na	na	410	454	111%
				1.3.7	Value of voluntary savings	USD	nt	5,080	n/a	nt	na	na	nt
		1.3.8	Active borrowers	Number	110	125	114%	250	0	0%	360	202	56%
				Female	88	111	126%	200	0	0%	288	176	61%
				Male	22	12	55%	50	0	0%	72	26	36%
		1.3.10	Value of gross loan portfolio	USD	800,000	433,096	54%	400000	0	0%	1,300,000	859,371	66%
		1.3.12	People trained in financial services	Number	300	524	175%	250	472	189%	3,600	1,510	42%
				Female	225	439	195%	200	371	186%	2,880	1,250	43%
				Male	75	85	113%	50	101	202%	720	260	36%
		1.5.1	People trained in production technology	Number	220	310	141%	200	394	197%	1,800	1,146	64%
				Female	165	282	171%	160	339	212%	1,260	878	70%
				Male	55	28	51%	40	55	138%	180	72	40%
		1.5.3	People trained in business and entrepreneurship skills/cooperative	Number	500	690	138%	200	93	47%	3,600	1,195	33%
				Female	400	552	138%	160	79	49%	2,880	983	34%
				Male	100	138	138%	40	14	35%	720	212	29%
		1.6.2	People trained in community management topics	Number	1,200	1,624	135%	0	na	na	3,600	3,093	86%
				Female	960	1,259	131%	0	na	na	2,880	2,401	83%
				Male	240	365	152%	0	na	na	720	692	96%
	Value chain	Number of individuals trained in production technology	Number	nt	n/a	n/a	450	511	114%	NT	511	na	
			Female	nt	n/a	n/a	225	252	112%	NT	252	na	
			Male	nt	n/a	n/a	225	259	115%	NT	259	na	
	Small and medium enterprise development	1.5.3	People trained in business management and entrepreneurship skills/	Number	45	72	160%	15	20	133%	135	92	68%
				Female	23	33	143%	8	8	100%	68	41	60%
				Male	22	39	177%	7	12	171%	67	51	76%
		1.5.4	Enterprises accessing non-financial services facilitated by the project	Number	15	15	100%	15	20	133%	45	35	78%
		1.5.5	Enterprises accessing financial services facilitated by the project	Number	15	0	0%	35	4	11%	45	4	9%
		1.3.9	Active borrowers (enterprises)	Number	15	0	0%	35	3	9%	45	3	7%
		1.3.11	Value of the gross loan portfolio (enterprises)	USD	nt	0	0%	NT	252,577.3	na	NT	252,577.3	na

Mongolia  
Project for Market and Pasture Management Development  
Supervision report - Mission dates: 2-Jun-2015 to 3-Jul-2015  
Appendix 4: Physical progress measured against AWP&B, including RIMS indicators

FIRST LEVEL RESULTS													
	Results			Unit	Period ending:	Dec-14		Period ending:	12/31/2014-01/06/2015		Cumulative 06-2015		
					AWP&B	Actual	% of AWPB	AWP&B	Actual	% of AWPB	Appraisal	Actual	% of Appraisal
Pasture management and climate change adaptation	Pasture management	1.1.1	People trained in infrastructure management	Number	0	0	n/a	0	na	na	46	32	70%
		1.1.6	Livestock water points constructed/rehabilitated	Number	12	10	83%	15	0	0%	46	34	74%
		1.1.7	Rainwater harvesting system constructed/rehabilitated	Number	3	3	100%	4	1	25%	5	5	100%
		1.1.9	People trained in natural resources management	Number	450	495	110%	450	32	7%	3,240	1,432	44%
				Female	225	149	66%	225	18	8%	1,620	458	28%
				Male	225	346	154%	225	14	6%	1,620	974	60%
		1.1.10	Natural resources management groups formed/strengthened	Number	60	60	100%	0	na	na	120	121	101%
		1.1.11	People in natural resources management groups formed/strengthened	Number	4,200	3,872	92%	0	na	na	9,450	10,543	112%
				Female	2,100	2,130	101%	0	na	na	4,725	5,799	123%
				Male	2,100	1,742	83%	0	na	na	4,725	4,744	100%
		1.1.12	Natural resources management groups with women in leadership position	Number	18	9	50%	0	na	na	36	22	61%
		1.1.13	Environmental management plans formulated	Number	60	60	n/a	60	60	100%	120	120	100%
		1.1.14	Land under improved management practices	Ha	nt	1,446	n/a	NT	37,457.8	na	nt	41,935	n/a
		Climate change adaptation	1.1.15	Households covered new or improved climate information services	Number	2771	4,710	170%	4025	4025	100%	2771	4,710
1.2.3.	People trained in livestock production and technologies		Number	1,200	1,742	145%	0	na	na	165	1,882	1141%	
			Female	480	630	131%	0	na	na	82	710	866%	
			Male	720	1,112	154%	0	na	na	83	1,172	1412%	
1.4.8	Storage facilities constructed/rehabilitated		Number	3	5	167%	4	0	0%	10	7	70%	
1.5.2	People receiving vocational training		Number	0	0	n/a	30	0	0%	30	43	143%	
			Female	0	0	n/a	15	0	0%	15	21	140%	
			Male	0	0	n/a	15	0	0%	15	22	147%	
1.5.3	People trained in cooperative development		Number	100	100	100%	250	282	113%	n/t	570	n/a	
			Female	50	30	60%	125	111	89%	n/t	187	n/a	
			Male	50	70	140%	125	171	137%	n/t	383	n/a	
1.6.1.	Government officials trained		Number	60	135	225%	50	60	120%	nt	150	n/a	
			Female	12	27	225%	25	21	84%	nt	30	n/a	
			Male	48	108	225%	25	39	156%	nt	120	n/a	
1.6.2	People trained in community management topics		Number	450	495	110%	450	0	0%	120	623	519%	
			Female	225	198	88%	225	0	0%	60	248	413%	
			Male	225	297	132%	225	0	0%	60	375	625%	
1.6.8	Households accessing revolving funds created under the project/herder group fund	Number	516	326	63%	NT	249	n/a	1,350	575	43%		
1.6.10	# of individuals involved in climate risk management, NRM or DRR activities	Number	1,200	1,408	117%	450	502	112%	n/t	1,910	n/a		
		Female	600	671	112%	225	141	63%	n/t	812	n/a		
		Male	600	737	123%	225	361	160%	n/t	1,098	n/a		



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

**Table 5A: Financial performance by financier**

Financier	Appraisal (USD '000)	Disbursements (USD '000)	Per cent disbursed
IFAD loan	11,479	5,635	49
GEF grant	1,500	676	45
Government	899	124	14
Beneficiaries	168	394	235
Companies	1,663	134	8
Institutions	3,656	252	9
<b>Total</b>	<b>18,365</b>	<b>7,215</b>	<b>39</b>

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

Component	IFAD loan			GEF grant			Government			Private Sector			Total		
	Appraisal	Actual	%	Appraisal	Actual	%	Appraisal	Actual	%	Appraisal	Actual	%	Appraisal	Actual	%
Pasture Management and Climate Change	4,956	2,408	49	1,500	676	45	602	78	13		488		7,058	3,650	52
Adaptation	5,256	2,553	49				208	22	11	4,488	294		9,951	2,869	29
Market Development	1,267	674	53				89	24	27				1,356	698	51
Project Management															
<b>Total</b>	<b>11,479</b>	<b>5,635</b>	<b>49</b>	<b>1,500</b>	<b>676</b>	<b>45</b>	<b>899</b>	<b>124</b>	<b>14</b>	<b>4,488</b>	<b>782</b>	<b>17</b>	<b>18,365</b>	<b>7,217</b>	<b>39</b>

**Table 5C-1: IFAD loan disbursements (SDR, as at 30-6-15)**

Category	Category description	Original Allocation	Revised Allocation	Disbursement	W/A pending	Balance	Per cent disbursed
I	Civil works	330,000	330,000	169,969	45,113	87,917	73
II	Vehicles, Equipment	620,000	620,000	278,970		341,030	45
III-a	Tools, Materials	570,000	570,000	303,710		266,290	53
III-b	Economic Development costs	1,190,000	1,190,000	147,842	20,379	1,021,779	14
IV	Group Formation & Project Grant	620,000	620,000	343,319	19,910	256,770	59
V-a	Loan Guarantee for Beneficiaries in project area	660,000	660,000			660,000	
V-b	Loan Guarantee for Beneficiaries outside project area	1,240,000	1,240,000			1,240,000	
V-c	Credit Line	330,000	750,000	519,450	172,414	58,135	92
VI	Field & Management, operating and maintenance costs	1,100,000	1,100,000	279,991	23,909	796,100	28
	Unallocated	590,000	170,000			170,000	
	Advance for Guarantee			972,044		- 972,044	
	Initial deposit			596,675		- 596,675	
	<b>Total</b>	<b>7,250,000</b>	<b>7,250,000</b>	<b>3,638,970</b>	<b>281,726</b>	<b>3,329,304</b>	<b>54</b>

**Table 5C-2: GEF grant disbursements (SDR, as at 30-6-15)**

Category	Category description	Original Allocation	Revised Allocation	Disbursement	W/A pending	Balance	Per cent disbursed
II	Vehicles, Equipment	60,000	60,000	38,280		21,720	64
III-a	Tools, Materials	340,000	340,000	238,016		101,984	70
III-b	Economic Development costs	930,000	930,000	399,603		530,397	43
VI	Field & Management, operating and maintenance costs	22,000	22,000	22		21,978	
	Unallocated	148,000	148,000			148,000	
	Initial deposit			250,000		- 250,000	
	<b>Total</b>	<b>1,500,000</b>	<b>1,500,000</b>	<b>925,921</b>		<b>574,079</b>	<b>62</b>

## Appendix 6: Compliance with legal covenants: Status of implementation

SECTION	COVENANT	TARGET/ ACTION DUE DATE	COMPLIANCE STATUS/DATE
<b>Section 4.02</b>	PCU to open and maintain a Project Account to make an initial deposit equivalent to USD		<b>Complied</b>
<b>Section 4.02</b>	GoM to replenish Project Account quarterly in advance		<b>Being complied</b>
<b>Section 4.05, section 11.10(b)</b>	Audit report submitted to IFAD.	June 2015	<b>Being complied</b>
<b>Schedule 4, para 7</b>	AWPB to be submitted to the Fund, for its review and comments		<b>Complied</b>
<b>Schedule 4, para 8(a)</b>	A Mid-Term Review (MTR) to be carried out jointly by the Borrower and IFAD.		<b>Complied</b>
<b>Schedule 4, para 16</b>	Project to be exempted from all import duties, excise taxes and value added tax (VAT) on investment expenditures		<b>Complied</b>
<b>Section B.6 Financing Agreement</b>	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	<b>Complied.</b> 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
<b>Section B.7 Financing Agreement</b>	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	<b>Complied.</b> 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.
<b>Section B.8 Financing Agreement</b>	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	<b>Complied.</b> 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
<b>Section B.9 Financing Agreement</b>	The Borrower/Recipient shall exempt all duties and taxes associated with the Project.		<b>Complied</b>
<b>Section E.1(a) Financing Agreement</b>	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	<b>Complied.</b> D. Dalantainyam was appointed as a Project director by the order B/56 of the state secretary of MoIA on 16 <sup>th</sup> November 2011. J. Boldhuyag was appointed as an accountant by the order 337 of the state secretary of MOF on 18 November 2011. Ms. Oyuntuya 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.
<b>Section E.1(b) Financing Agreement</b>	The Designated accounts and the Project accounts shall have been opened	By the end of 2011	<b>Complied.</b> The Designated Accounts and the Project Accounts have been opened

SECTION	COVENANT	TARGET/ ACTION DUE DATE	COMPLIANCE STATUS/DATE
<b>Section E.1(c) Financing Agreement</b>	The Project Steering Committee (PSC) shall have been established.	By the end of 2011	<b>Complied.</b> 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
<b>Section E.2 Financing Agreement</b>	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	<b>Complied.</b> Loan Guarantee Technical Committee was established by the resolution of the Chairperson of the PSC on 11 <sup>th</sup> 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).
<b>Para. 6, Schedule 1 Financing Agreement</b>	The PSC will meet at least twice per year.		<b>Complied</b>
<b>Para. 8, Schedule 1 Financing Agreement</b>	Annual Wok Plan and Budget. Separate AWPB will be prepared for IFAD and for GEF expenditures. AWPBs should be reviewed and approved by the PSC.	4 <sup>th</sup> quarter of 2012	<b>Complied.</b>
<b>Section E.3 Financing Agreement</b>	This Agreement is subject to ratification by the Borrower/Recipient.		<b>Complied.</b> The Financing Agreement was ratified by the Parliament of Mongolia on 10 July 2011.
<b>Para. 1, Schedule 1 Financing Agreement</b>	The project target group will include women and men from herder households and from Soum and Aimag center households; and female headed households and households classified by the local government as poor and vulnerable in the lists at Bagh and Soum level, in the Aimags of Huvsgul, Arhangay, Bulgan, Hentii and Gobi-Altai (the "Project area").		<b>Being complied.</b>

SECTION	COVENANT	TARGET/ ACTION DUE DATE	COMPLIANCE STATUS/DATE
<b>Para. 4.1.1 Schedule 1 Financing Agreement</b>	<b>Value chain development.</b> The project approach in a given value chain will be to identify demand first and then link it to herders' cooperatives and producer groups, selling quality output on the basis of a medium-long term commercial agreement. Main activities will include the following: selection of value chains and/or commodities which can be produced profitably and in a sustainable manner, identification of private and/or public enterprise, herders' cooperatives and producer groups for the development of the priority value chains, establishment with project support, of a draft business plan by the selected companies including an investment plan, consultation with potential producers on the basis of the draft business and investment plan, review of the proposed production, quality and marketing modalities as well as the premium pricing mechanism, 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. 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" programs and its measures, undertaken to develop agricultural commodity exchange in context of their general goals		Being complied.
<b>Para. 4.1.2 Schedule 1 Financing Agreement</b>	<p><b>Small enterprise development.</b> 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><b>Loan guarantees.</b> 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>

SECTION	COVENANT	TARGET/ ACTION DUE DATE	COMPLIANCE STATUS/DATE
<b>Para. 4.2.1 Schedule 1 Financing Agreement</b>	<b>Pasture management.</b> 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		<b>Being complied.</b>
<b>Para. 4.2.2 Schedule 1 Financing Agreement</b>	<b>Climate change adaptation.</b> 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	<b>Being complied.</b>
<b>Para. 4.3 Schedule 1 Financing Agreement</b>	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	<b>Complied.</b>

SECTION	COVENANT	TARGET/ ACTION DUE DATE	COMPLIANCE STATUS/DATE
<b>Para. 6 Schedule 1 Financing Agreement</b>	<p>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.</p> <p>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</p>		<b>Complied.</b>





## Appendix 7: Knowledge management: Learning and Innovation

### Learning - Policy Dialogue

Ms. Munkhtuya Bazarsad is the member of the women's group "Tsambai" created in October 2013. The group has 7 other members, 4 women and 3 men, and is led by Ms. Tserenbaljid Lkhamjav. It is located in Tsenkher *soum*, Arkhangay *aimag*. Together with other group members, Ms. Munkhtuya Bazarsad wanted to develop her activity: carpentry for traditional *ger* furniture, but as the other members of her group, she was not bankable. Assets that she could pledge as collateral/guarantee against a loan from a commercial bank were way too insufficient to comply with banks' requirement. Ms. Munkhtuya Bazarsad women's group was supported by the Union of Mongolian Production and Services Cooperatives (UMPSC) under the Project for Market and Pasture Management Development (PMPMD). Once the women's group was established, several different trainings have been provided by the UMPSC such as group management, technological training, marketing training, business management and accounting. In May 2014, the group was able to draft its business plan and submitted its loan application to the Capital Bank.



*Production from the Tsambai Women's Group. Source: Thierry F. Mahieux*

Under the PMPMD, the group became eligible to both a loan and a guarantee mechanism. The loan was extended by Capital Bank with resources from the PMPMD. The loan had the same terms and conditions as loans extended to micro-entrepreneurs under the state-financed Employment Generation Fund (3-year duration inclusive of a 1-year grace period for principal only and 8% interest rate per year). The loan was extended in October 2014 under the name of the group leader as the group is not a legal entity accepted by the bank. Then, the group leader equally divided the loan proceeds among all group members, each member receiving MNT 1.25 million for his/her business. The guarantee was provided by the Loan Guarantee Facility, a non-institutionalized mechanism, implemented under the PMPMD which extends both a portfolio guarantee for women's groups and

pasture herders' groups with a risk coverage of 80% considering the extreme low level of assets they could pledge against a loan, and individual guarantees for cooperatives and SMEs with a risk coverage of 60% and 50% respectively.

Commercial banks partnering the PMPMD have limited their request as for collateral when lending to women's groups and pasture herders' groups, all the members of which from poor households. As per bank's requirements, the value of the collateral should represent 120% of the loan amount. In the case of women's groups, with the project providing 80% risk coverage through the Loan Guarantee Facility, the bank only requires an additional 40%, which is affordable for women's and pasture herders' groups.

Meanwhile during the implementation of the PMPMD Loan Guarantee Facility, the Government of Mongolia issued the first Law on Guarantee which stated among other provisions that the maximum amount of risk that a guarantee fund could cover was 60%. The Law also stated that there should be only one Guarantee Fund operating in Mongolia. A State-financed Credit Guarantee Fund was implemented in 2013, one year after the implementation of the PMPMD Loan Guarantee Facility. The State Credit Guarantee Fund focused its activity on issuing guarantees for medium and large enterprises mainly based in Ulaanbaatar. The provision related to the unicity of a Guarantee Fund in Mongolia paved the way to the merger of the PMPMD Loan Guarantee Facility with the State Credit Guarantee Fund which will take place at project's completion i.e. September 2016. The PMPMD Loan Guarantee Facility will become a department of the State Credit Guarantee Fund specialized on rural areas, poor households and small and micro-enterprises, thus scaling-up its activity limited to 5 *aimags* under the PMPMD across the whole country.



*Ms. Munkhtuya Bazarsad Source: Thierry F. Mahieux*

Ms. Munkhtuya Bazarsad's activity and income have been substantially improved as a result from the non-financial services (training and capacity building) and financial services (loan and related guarantee) provided under the PMPMD. From her business profit, she has already accumulated in her savings account nearly 75% of the loan amount she has to pay back to the bank in Oct. 2016 and Oct. 2017. Other members of Ms. Munkhtuya Bazarsad's group are experiencing a similar increase in the turnover and profitability of their businesses.

Like Ms. Munkhtuya Bazarsad's group, 458 women's groups and 120 pasture herders' groups will be financed by commercial banks with PMPMD resources and will be guaranteed by the PMPMD Loan Guarantee Facility as at end July 2015. So far, repayment rate has been 100% at due time.

As a result of the empowerment of women and groups, of the increased activity and profitability of businesses implemented, and of 100% on-time repayment rate, three major consequences have been drawn:

- *Soum* governors are now co-financing with the project the rehabilitation of workplaces for women's groups and pasture herders groups. These workplaces will enable women's groups to have their own working station instead of each member working at home. Increase in quality and quantity is expected. *Soum* governors now see women's groups as a real thrust for local development and encourage women to form additional groups under the same model as the PMPMD one;

- The Ministry of Labor Employment Generation Fund which is financing micro-entrepreneurs across the whole country will increase the ceiling of its loans extended through commercial banks from MNT 5 million to MNT 10 million based on the PMPMD experience;
  - The Parliament of Mongolia will amend the Law on Guarantee increasing the maximum risk coverage from 60% to 80% for poor households, based on the PMPMD experience and outcome. It will increase accessibility of poor households to financial services for the financing of their activities.
-