



Enabling poor rural people  
to overcome poverty

**MONGOLIA**

**PROJECT FOR MARKET AND PASTURE MANAGEMENT  
DEVELOPMENT**

**SUPERVISION REPORT**

**SEPTEMBER 2012**

<b>Loan No.</b>	<b>8367-MN</b>
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## ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
ADRA	Adventist Development and Relief Agency
ARDP	Agriculture and Rural Development Project
ARPAP	Arhangai Rural Poverty Alleviation Project
AWPB	Annual Work Plans and Budget
BOM	Bank of Mongolia, the central bank
CDPMP	Community Development for Pasture Management Project
EGSPRS	Economic Growth Support and Poverty Reduction Strategy
FRR	Financial Rate of Return
GDP	Gross Domestic Product
GEF	Global Environmental Facility
GF	Guarantee Fund
GOM	Government of Mongolia
GIZ	German Agency for Technical Co-operation
IA	Implementing Agency
ICB	International Competitive Bidding
IFAD	International Fund for Agricultural Development
KSF	Key Success Factor
LCB	Local Competitive Bidding
MARPP	Market Access for the Rural Poor Project
MDF	Micro-finance Development Fund
MDG	Millennium Development Goal
M&E	Monitoring and Evaluation
MMO	Micro-finance Management Office
MNCCI	Mongolian National Chamber of Commerce and Industries
MNT	Mongolian Tugrik
MOF	Ministry of Finance
MOFALI	Ministry of Food, Agriculture and Light Industries
NGO	Non-Governmental Organisation
NSO	National Statistical Office
PFI	Participating Financial Institution
PHG	Pasture Herders' Group
PMPMD	Project for Market and Pasture Management Development
PMU	Project Management Unit
PSC	Project Steering Committee
PUG	Pasture Users' Group
PY	Project Year
REDP	Regional Economic Development Programme
RMMC	Rangeland Management & Monitoring Committee
RPRP	Rural Poverty Reduction Programme
SCCF	Special Climate Change Fund
SDC	Swiss Development Cooperation
SLP II	Sustainable Livelihood Project Phase II
SHG	Self Help Group
UNDP	United Nations Development Programme
UNFCCC	United Nations Framework Convention on Climate Change
UNIFEM	United Nations Development Fund for Women
UNOPS	United Nations Office for Project Services
USAID	United States Agency for International Development
USD	United States Dollar
WB	World Bank

## GLOSSARY

Soum	District
Aimag	Province
Bagh	Smallest administrative unit
Dzud	Snow storm
Ger	Herders tent
Hural	Elected council

## Mongolia

### Project for Market and Pasture Management Development

#### Supervision Mission Report

##### A. Introduction

1. An IFAD loan of SRD 7.25 million (equivalent to USD 11.5 million) on highly concessional terms was approved by the IFAD Executive Board in May 2011 for the Project for Market and Pasture Management Development (PMPM) and became effective on 26<sup>th</sup> August 2011. The Project Completion Date is 30 September 2016 and the Loan Closing Date is 31<sup>st</sup> 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 group will include women and men from herder households and from Soum and Aimag centre households; and female headed households and households classified by the local government as poor and vulnerable in the lists at Bagh and Soum level, in the five Aimag of Arhangai, Bulgan, Henti, Huvsgul and Gobi-Altai.

2. The project consists of 3 components: (i) Market Development (covering value chain development, small enterprise development, loan guarantee schemes); (ii) Pasture Management and climate change adaptation (covering formation of pasture herder groups, pasture management plans, climate change adaptation); and (iii) Project Management and Policy Support. The total project costs are USD 18.4 million, including the IFAD loan of USD 11.5 million, a GEF Grant of USD 1.5 million and government counterpart contribution of USD 0.9 million. The Project Lead Agency is the Ministry for Food, Agriculture and Light Industry (MOFALI), which changed its name as the Ministry of Industry and Agriculture (MOIA) after the 2012 national elections. A Project Management Unit (PMU) reporting to the State Secretary of MOIA is in charge of the overall coordination and management of the project, while the actual project implementation will be carried out by contracted service providers together with the target group members.

3. An IFAD Supervision Mission<sup>1</sup> visited the project from 24<sup>th</sup> September to 5<sup>th</sup> October 2012. The main objectives of the supervision mission are to ensure that the development objectives of the projects are being met and to satisfy IFAD's fiduciary responsibilities, with a focus on: (i) Assess the implementation progress of the project, including assessment of the achievement of outputs by component and outcome indicators as per the logframe of the project; (ii) Help identify and remove implementation bottlenecks and constraints; and (iii) Discuss and agree on a set of actions to be implemented by the project in the next six to twelve months period.

4. The mission met and discussed with the officials and staff of the project and its implementing partners, including the Ministry of Finance (MOF), MOIA, the Ministry of Labour (MOL), the Financial Regulatory Committee, the Mongol Bank, the KHAN Bank, the Savings Bank, XAC Bank, GIZ-supported Credit Guarantee Fund project, UNDP-supported Guarantee Scheme and Desertification project, JICA-financed Development Fund, the USAID supported Millennium Challenge Account project, the Union of Mongolian Production and Service Cooperatives (UMPSC), the Mongolian Society for Range Management (MSRM) and the Agency for Meteorology Hydrology and Environmental Monitoring. The mission undertook field visits to selected Soums in Aimag of Bulgan, Khentii and Arhangai. See Appendix 10 for the mission schedule and people the mission met.

5. A pre-wrap up meeting with the MOF and PMU was held on 4<sup>th</sup> October 2012. A wrap-up meeting was held on 5<sup>th</sup> October 2012, chaired by Mr. Togmid Dorjkhand, Director General, Development Financing and Cooperation Department of the Ministry of Finance, with participants from MOF, MOIA, MOL, UMPSC and MSRM to discuss the Draft Aide-Mémoire. The Draft Aide-Mémoire, which records the mission's findings and conclusions, was revised during the meeting to reflect the agreements reached and signed. The Aide-Mémoire will be subject to review and approval by the Government of Mongolia and IFAD Management.

6. The mission would like to express its sincere appreciation for the assistance, cooperation and hospitality provided to the mission by all those met in Ulan Bator and in the Aimag.

##### B. Overall Assessment of Project Implementation Progress

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<sup>1</sup> The mission consisted of Mr. Youqiong Wang, Country Programme Manager of IFAD for Mongolia; Thierry F. Mahieux, Rural Finance and Value Chain Specialist, who worked in Mongolia from 9<sup>th</sup> to 28<sup>th</sup> September 2012; Sabine Schmidt, Pasture Management Specialist, who worked in Mongolia from 19<sup>th</sup> September to 5<sup>th</sup> October 2012; Irene Li, Finance Office, CFS, who worked in Mongolia from 20<sup>th</sup> to 27<sup>th</sup> September 2012; Shankar Kutty, Procurement Adviser; APR and Tawfiq El-Zabri, Results-based-management Advisor, APR worked in Mongolia from 24<sup>th</sup> September to 5<sup>th</sup> October 2012. Mr. Dalai Dalantainyam, Project Director of the PMU, Ms S. Gun-Uyanga, M&E Office of the PMU and representatives from Mongolian Society for Range Management (service provider for pasture management component) and Union of Mongolian Production and Service Cooperatives (service provider for micro enterprise development component) joined the mission during its field visits.

7. From the effectiveness of the project and the start-up workshop in November 2011, the project has completed a large part of the agreed start-up preparatory work as provided in the AWPB of the first project year of 2012, including setting up the project management team; recruitment of most of the key staff of the PMU; completion of the procurement of services for the pasture management component and formation of women value chain groups under the market development component, each with a one year renewable contract starting from July 2012; completion of the procurement of 15 units of motorcycles, one PMU vehicle, office equipment for the PMU and pasture management Soum coordinators, 30 units of solar panel (pending delivery), 15 units of tractors (pending delivery), 30 units of water sprinkler system (pending delivery); construction of one hay shelter and fodder storage in Khentii aimag; and launching of the bidding for value chain and SME development though cancelled due to no qualified service provider based on the objection from IFAD. The MOF and PMU also worked actively in the preparation for the operations of the loan guarantee fund and consultations with the MOIA and MOL for the project beneficiaries to access to the Employment Generation Fund and the SME Development Fund at MOL. Overall, the project implementation progress is moderately satisfactory, in spite of restrictions posted before, during and post national elections from May to July 2012.

### C. Outputs and Outcomes by Component and Sub-component

8. The project has three components: a) Market development; b) Pasture management and climate change adaptation; and c) Project management and policy support.

#### Market Development

9. The Market Development component is to promote poverty reduction and livelihood improvement through economic development and consists of: a) value chain development; b) small enterprise development; c) micro-enterprise development; and d) loan guarantees. The implementation of Market Development activities is through: (i) selection of service providers (one for Value Chain Development and one for Micro-Enterprise Development); and (ii) a loan guarantee facility. The overall assessment of the Market Development component is moderately unsatisfactory, mainly as a result of external causes, e.g. the general elections in mid-2012 with most of the decisions to be taken at policy level postponed until after the new Parliament and new Government were in place.

10. Value Chain Development. The sub-component outcome target is to assist 5 500 households in the project area to increase their sales and profits in 15 value chains. In addition, it seeks to assist 500 households to enter into collective commercial arrangements that share risk and profit with private sector partners. To do so, the subcomponent provides support to organising households into about 120 groups that benefit from economies of scale and improved skills and to the execution of business plans agreed with partners across each specific chain; and envisages support to 5 SMEs with joint shareholding or other mutual profit-sharing arrangements with targeted households. The 2012 AWPB earmarked approximately USD 140 000 towards this subcomponent. The assessment of the value chain development sub-component is unsatisfactory as none of the targets and implementation arrangements have been met. After a call for expression of interest published in February 2012, an invitation to tender was issued and the PMU requested IFAD's for review and no-objection for the selected service provider (Itgelt Estimate Consulting Company). In view of the lack of experience of the service provider and its proposed experts in value chain development, IFAD provided its objection and recommendation for the cancellation of the bidding process in June 2012. So far, no other attempt has been undertaken by the PMU to procure the services for the Value Chain Development.

11. Considering that local NGOs have very limited skills and experience in value chain development, the mission recommends that the PMU should recruit a team of individual consultants working together with a local NGO. The team of individual consultants will comprise of an international or national expert in value chain development as the team leader, a local bank/financing specialist and of a roster of qualified short term local technical experts (at least one local expert for each value chain to be identified and supported by the project). The consultants' team will have the responsibility for: (a) undertaking value chain analyses of the activities implemented in the target Soums/Aimags and identification of market possibilities and of existing SMEs networks (either by carrying out complete value chain analyses or by updating existing ones); (b) assisting herders and producers to enter into contractual arrangements with other value chain stakeholders to access markets and improved supplies and inputs and to strengthen the capacity of value chain group members; (c) assisting producers' and herders' groups to develop their business plans and related loan requests/applications submitted to commercial banks and SMEs Development Fund; and (d) assess groups' training needs and identify training institutions (the consultants' team will also have the possibility to provide technical assistance to groups). The local NGO working with the consultants' team will have the responsibility for: (a) strengthening the capacity of value chain group members to access financing as individuals; (b) assisting herders and producers to form legal entities (partnerships and/or cooperatives) so as to be eligible for financing; and (c) following-up on their activities once financed. Terms of Reference of the already selected NGO for the Pasture Management component will be amended to include assistance to group formation and management under the Market Development component at least for herders' groups. The project will evaluate the capacity of the NGO to assist non-herders to form their groups and will contract another local NGO if deemed necessary. The consultants' team should be contracted at the latest by the end of March

2013 for a 12-month period over 2 years for the international or national value chain specialist and an 18-month period over three years for each of the bank/financing specialist and the local technical experts. The mission will provide the TORs at a later stage for (i) the individual consultants; and (ii) the selected NGO for the Pasture Management component.

12. Small and Micro-Enterprise Development. The outcome target is that 2750 women have improved access to finance (through group savings and credit and linkages to financial institutions) and skills to generate additional income from micro-enterprises. About USD 100 000 has been earmarked to this activity in the 2012 AWPB. The assessment of the small and micro-enterprise development sub-component is moderately satisfactory, as most of the targets and implementation arrangements are met. Implementation progress is on track with perspective of successful completion in due time. Following a call for expression of interest published in February 2012, the UMPSC was selected and a one-year renewable contract was signed with the PMU on 22<sup>nd</sup> June 2012 for a total value of MNT 58,980,000 (equivalent to USD 43,689). Out of the planned 120 women's groups to be formed and trained by the service provider, as of end of September 2012, the UMPSC has formed 110 new women's groups (totalling 631 members of which 539 are women), assessed their training needs, developed adapted training materials and provided them with group formation and management training. A second set of training courses will start in October 2012, including training in business management and planning and project proposal preparation. First group of loan requests and applications should be submitted to both the Employment Generation Fund (EGF) and banks participating in the EGF scheme by the end of March 2013. The UMPSC has also contracted 5 local facilitators based at the Aimag level responsible for the project-related activities. These local facilitators, not included in the project design report, constitute a key factor of success for the implementation of the micro-enterprise development activities.

13. The current UMPSC operational pattern through one local facilitator per Aimag already bears high transaction costs and will reach its limits with the planned increased number of groups to be formed. To increase the efficiency and proximity of and accessibility to local facilitators when assisting groups and to facilitate liaison with Soum administration, the mission recommends to increase the number of local facilitators from one per Aimag to one per Soum (20 in total) with current local facilitators acting as focal point between the local Aimag administration, financial institutions and other service providers (particularly training and capacity building). Synergetic planning considering governmental policies should be developed at Soum level by local facilitators to increase impact on rural communities. A revised budget should be drafted and included in the PMPMD budget for the contract with the NGO service provider in 2013 and in the following years, inclusive of the salaries of 20 local facilitators, their operating costs and computer equipment.

14. Following its field visits and discussions with the local facilitators and groups already formed, the mission has the following recommendations: (i) undertake a second screening of all groups already formed to avoid elite capture (e.g. the kimchi production group); (ii) harmonize the schedule of training in business management, planning and project development with the implementation of the Loan Guarantee Facility to avoid women's groups loan applications to be rejected by banks due to lack of collaterals; (iii) a more pro-active role to be played by the UMPSC in proposing alternative activities to women to avoid covariant risk for both financing institutions and women's groups; (iv) maximum loan size for each member of a group not to exceed MNT 2 million (USD 1 481) to limit risk exposures; and (v) the number of local facilitators to be increased to 20 (one per Soum) to increase efficiency and proximity with and accessibility to groups. The above should be reflected in the revised TOR of the extended contract for the UMPSC after a detailed assessment by the PMU of the performance of the UMPSC.

15. Discussions with the EGF Senior Management in UB and EGF Director at Aimag level has highlighted the fact that the EGF would not be able to finance every demand for credit from the PMPMD groups' members on top of the normal demand from EGF targeted population. The EGF budget is allocated by Soum at the beginning of each year based on its population, number of poor and general level of poverty. For Bulgan Aimag, the annual amount allocated per Soum ranges from MNT 20 to 64 million (loan repayments are not used as revolving funds but are transferred back to the Central Government's budget). Considering an average of 5 new groups per Soum per year with 7 members each and a maximum loan amount of MNT 2 million per member, the PMPMD supported groups would annually require up to MNT 70 million to finance each group member's activity, hence exceeding the total Soum resources allocated under the EGF. Under such circumstances and considering that the amount of USD 3.4 million allocated for guarantee purposes is over-estimated (see below), the mission recommends to reallocate USD 0.5 million out of USD 3.4 million originally allocated for the loan guarantee fund and use this amount as a credit line. This credit line, with loan repayments forming a revolving fund with each participating bank, would be used by participating banks to finance PMPMD's women's groups under the same terms and conditions as those used by the participating banks when using EGF resources to finance eligible beneficiaries (interest rate at 0.875% per month). Based on the consolidation of all loan requests from PMPMD and other beneficiaries, their risk assessment and the determination of available EGF resources, riskier

investments should be financed through EGF resources supported under the PMPMD's loan guarantee facility, while less risky investments would be financed from PMPMD's credit line. When banks are using PMPMD's re-

sources, they would bear a percentage of the final loss equivalent to their share of risk/loss under the guarantee coverage offered by the PMPMD's Guarantee Facility for similar investments.

16. Discussions with commercial banks' senior management (XacBank, Khan Bank and Savings Bank) as well as with EGF senior management have shown that informal groups (such as those promoted under the PMPMD) are not eligible for financing, whichever resources are used. In the short-term, it is premature to envisage the creation of women's groups under the PMPMD as partnerships or cooperatives (i.e. legal entities). To enable access to financing, groups' members could opt for one of the following possibilities: (i) access to loan on an individual basis with joint-liability from all other members; or (ii) loans are extended to activities' leaders and then split with other members undertaking the same activity with their joint-liability. However, the group concept would continue to be promoted by the project for training and capacity building activities.

17. Finally, according to UMPSC, women's groups will continue to require assistance, training, advisory services and monitoring after accessing loans. To ensure an efficient monitoring and follow-up with groups who have access to financing, assistance to communities to form new groups and provision of training and capacity building to these new groups, the mission recommends to decrease the number of targeted women's groups to be formed and trained during the five-year project period from 550 to 360. Considering the 110 groups already formed by UMPSC in 2012, the new annual targets for group formation and training are proposed as follows: (i) 70 groups formed in 2013 (with group formation starting in August 2013 and business management training in late 2013; assistance to drafting business plans and loan applications during first quarter of 2014 and submission to banks and EGF starting second quarter of 2014); (ii) 90 groups formed in 2014; and (iii) 90 groups formed in 2015. Based on the effective demand for credits and availability of resources from both PMPMD and EGF, the target for women's groups formed and trained will be further reviewed during the mid-term review (MTR). The mission also recommends to stop the assistance to communities for new group formation and subsequent training until the Guarantee Facility is operational (see below).

18. Loan Guarantees. This subcomponent aims to support the access by value chain actors, women's groups and poor herders to financing for value chains, small enterprises and micro-enterprises through establishing a Loan Guarantee Fund/Facility (LGF), thereby contributing to the abovementioned subcomponent outcome targets as well as contributing to the Pasture Management outcome target by facilitating access to financial services for Pasture Herder Groups or more likely for sub-groups for income generation within them. Approximately USD 600 000 was earmarked to this activity in 2012 AWPB. The assessment of the loan guarantee facility subcomponent is moderately unsatisfactory, mainly due to external causes, such as the general elections in mid-2012, which prevented the effective implementation of the Law on Guarantee Fund and the PMPMD LGF and the unavailability of the private sector-owned and managed Credit Guarantee Fund as a result of its non-compliance with the minimum share capital requirement stipulated by the Financial Regulatory Commission (MNT 3 billion). The Law on Guarantee Fund has been passed on 10<sup>th</sup> February 2012. However, documentation, manual of procedures and legal, institutional and implementation arrangements have been updated for its implementation to avoid further delay.

19. Considering that women's groups are scheduled to submit their loan requests and applications to both Banks and EGF by March 2013, it is of paramount importance for the PMPMD LGF to be implemented and operational prior to March 2013. Given the uncertainties surrounding the capitalization of the private sector Credit Guarantee Fund and its future implementation as well as the lack of experience of the public sector in guarantee fund implementation and management, the following has been discussed and agreed with MOF to implement the PMPMD financed LGF as follows: (i) Portfolio or individual guarantees are formally extended by a unit to be established by the MOF as part of the PMU to eligible banks when financing PMPMD's target beneficiaries; (ii) The review of loan applications and their risk assessment is undertaken by the MOF Unit, the staff of which is recruited by the MOF and technically trained by the project; (iii) The Unit is monitored by a Technical Committee mandated by the PMPMD Steering Committee which has the responsibilities for signing a guarantee contract with each participating commercial bank and approving new loans in their guaranteed portfolio (in case of a portfolio guarantee), giving the final approval in case of individual guarantees (based on recommendations from the Unit), and managing the LGF resources, commitments, risk exposures and liability; (iv) One vehicle will be procured for the MOF Unit to facilitate its supervision and monitoring of the implementation of the LGF and the credit line related activities in the field; and (v) The proposed implementation and institutional arrangement is transitional. Once a proper Guarantee Fund is established, implemented, operational and duly supervised by the Financial Regulatory Commission (the mission strongly favours a private sector, or public/private sector solution as opposed to a public sector-managed Guarantee Fund which, as reflected in the experiences of many other countries, has rarely been satisfactory), the Unit will transfer and integrate the functions of the transitional PMPMD financed LGF into a formal Guarantee Fund, while the latter will take over all guarantees already extended by the Unit of the MOF and maintain the related commitments made by the MOF Unit. The Unit of the MOF will no longer extend any more guarantee and the Technical Committee will be dissolved.

20. Even after the reallocation of USD 0.5 million from the USD 3.4 million allocated for guarantee purposes (see above) to be used as a credit line extended to participating banks to complement the resources from the EGF, the SME Development Fund and the Two-Step Loan Project, the financial projections show that under con-



servative assumptions, the remaining balance of USD 2.9 million for the PMPMD LGF is still more than enough to meet the projected demand for loans from PMPMD beneficiaries. To avoid idle funds, the mission recommends to expand the coverage of the PMPMD financed LGF to other beneficiaries in non-PMPMD areas subject to the following eligibility criteria: (i) activities financed are within PMPMD-supported value chains; (ii) investments considered have a direct and measurable impact on smallholders, producers, herders and rural households' income; (iii) loans extended by banks are financed by resources either from EGF, SME Development Fund, or Two-Step Loan project; (iv) same maximum loan sizes are applied as those applied for PMPMD beneficiaries; and (v) same poverty and gender focus is applied. The same operational procedures for accessing guarantees will be applied to other beneficiaries as to the PMPMD beneficiaries. The expanded scope and outreach of the LGF will enable women, herders, producers and SMEs from non-PMPMD Soums and Aimags to benefit from an improved access to financial resources thanks to the PMPMD Guarantee Facility.

21. Based on financial projections, including demands for credits and guarantees, the mission recommends to proceed with a re-allocation of the USD 3.4 million originally allocated for guarantee purposes as follows: (i) USD 0.5 million for a credit line to be extended to participating commercial banks to complement the resources from EGF, the SME Development Fund and the Two-Step Loan Project in Soums where required; (ii) USD 1.0 million for PMPMD beneficiaries' guarantee purposes; and (iii) USD 1.9 million for other beneficiaries' guarantee purposes in non-PMPMD areas. In addition, the mission recommends that MOF should request a transfer of USD 1.05 million to the Designated Account for the IFAD loan for the purpose of: (i) USD 0.2 million for PMPMD beneficiaries' guarantee purposes; (ii) USD 0.25 million for the credit line; and (iii) USD 0.6 million for other beneficiaries' guarantee purposes.

22. Annex 1 to this aide-mémoire will provide details for (i) draft Manual of Procedures for the PMPMD Loan Guarantee Facility implemented through the MOF Unit and the PMU for both PMPMD and other beneficiaries; (ii) draft Terms of Reference for the Unit's staff; (iii) draft Memorandum of Understanding between MOF in charge of the operations of the LGF, MOL in charge of the management of the SMEs Development Fund and the EGF and the MOIA as PMPMD Project Lead Agency for the coordination and operations of financing and guaranteeing activities; (iv) proposed amendment to the Financing Agreement between IFAD and Mongolia through the MOF; (v) the PMPMD financed LGF financing plan; (vi) a 12-month road map for the development of the PMPMD LGF; and (vii) a draft sample Subsidiary Loan Agreement between the MOF and participating commercial banks for the credit line.

Agreed Actions	Responsibility	Agreed Date
1) Value chain development activities: (i) Revise the Terms of Reference for the team of individual consultants; (ii) revise the terms of reference of the NGO already selected under the Pasture Management component; and (iii) procure the services of individual consultants.	PMU	From October 2012 to 1 <sup>st</sup> quarter 2013
2) The micro-enterprise development activities: (i) assess the performance of the recruited NGO before contract extension; (ii) second screening of all groups formed; (iii) harmonize the time schedule between groups' training and implementation of guarantee facility; (iv) encourage more pro-active role of the UMPSC to propose alternatives for groups' activities; (v) promote individual borrowing for groups' members; (vi) increase the number of local facilitators to 20 based at each Soum; (vii) use local facilitators as focal points with local governments in Aimags and Soums; (viii) revise 2013 NGO budget to include additional local facilitators' salaries; (ix) stop new groups' formation and training until the PMPMD LGF becomes operational; and (x) decrease the number of targeted women's groups to be formed and trained during the five years of the project from 550 to 360.	PMU, UMPSC and Steering Committee	From October 2012 to the end of March 2013.
3) The loan guarantee facility implementation: (i) recruit the MOF-Unit staff; (ii) establish the MOF/Unit and Technical Committee; (iii) finalize the Manual of Procedures for implementation; (iv) sign MOU between MOF, MOL, and MOIA; (v) provide training to MOF Unit staff; (vi) sign guarantee contracts with eligible commercial banks; and (vii) expand outreach of the guarantee facility to non-PMPMD beneficiaries subject to compliance with eligibility criteria.	MOF, PMU, the Steering Committee	From October 2012 to the end of 1 <sup>st</sup> quarter 2013
4) The reallocation of the loan guarantee facility: (i) MOF submit a request for the proposed reallocation of the budgeted USD 3.4 million as follows: a) USD 0.5 million to a credit line for participating banks to complement EGF resources for PMPMD women's groups; b) USD 1.0 million for PMPMD beneficiaries' guarantee purposes; c) USD 1.9 million for other beneficiaries' guarantee purposes; and (ii)	MOF, PMU and IFAD	From October to the end of December 2012.

Agreed Actions	Responsibility	Agreed Date
PMU submit a withdrawal application to request an transfer USD 1.05 million into the designated Account for the IFAD loan for 2013 activities.		
5) Amend the Financing Agreement (IFAD to send an amendment proposal to the PMU and MOF as part of the supervision report; MOF to send an official request for loan amendment; and IFAD to send an amendment letter to MOF for countersigning).	MOF and IFAD	By the end of December 2012.

### Pasture Management and Climate Change Adaptation

23. This component consists of two sub-components: a) Pasture management to support the establishment of grassroots herder institutions for sustainable pasture management; and b) Climate change adaptation to provide resources for implementation of pasture management plans and measures to increase the capacity and resilience of herders to cope with climate change impacts and manage pastoral risks. The overall assessment of the performance of the Pasture Management and Climate Change Adaptation component is moderately satisfactory, as most of the implementation arrangements and objectives are already met, while most of the GEF funded climate change adaptation related activities are still under preparation and yet to start.

24. Pasture management. The sub-component consists of formation of Pasture Herder Groups and preparation of pasture management plans; its outcome target is that 9 450 herder households collaborate effectively (through approximately 135 functioning Pasture Herder Groups) in joint management of pastures and are better able to respond to climate variability and extreme events. An additional outcome target is that pasture herder groups' Pasture Management Plans are integrated, and addressed, by local government policy-making. A total amount of approximately USD 600 000 has been budgeted for this subcomponent in 2012. The overall assessment of the pasture management sub-component is moderately satisfactory, as the implementation of the sub-component on pasture management has largely commenced as planned, except most of the GEF funded climate change adaptation related activities. A pasture management service provider ((MSRM) was selected on schedule and important targets for project year 1 have been achieved, including the identification and forming of 60 pasture and herder groups, appointment and training of 15 local coordinators, one each in the 15 selected target Soums, initial training of the 60 groups and identification of investments needs for 2012 and 2013. In each Soum, two water points have been identified through discussions with herders and groups and approval by the Soum government. The start-up workshops to familiarize local government and other local stakeholders with the project design have been postponed until after the election of local governments in the second half of November 2012.

25. For the selection of herder groups, the criteria defined by PMU and MOIA (i.e. clear boundaries, existing pasture use and activity plan, at least 3 years of experience, at least 10 member households) were found by the service provider to be not applicable in all cases. Most groups did not have defined boundaries and they operate on the common understanding among herders and local governments of the customary areas for seasonal pasture use of different households and groups. The service provider applied an approach of inclusive discussions involving not only group members but households from surrounding areas as well as bagh and Soum officials. This participatory process is a key step in establishing groups and defining their common pasture in a more formal way and provides the basis for investments for groups and an incentive for pasture improvement investments by herders themselves. About 25% of households are to be involved in project activities based on the current project design. Despite the efforts to jointly define the boundaries of selected groups, it remains a challenge for effective pasture management and sustainability of groups, if the entire area and all households/groups are not covered under the project. An approach that covers all pasture land (or at least more area) in one Soum would be more effective for improving pasture management and could also be more efficient in terms of project management/service delivery by the NGO. The recommendation of the mission is not to increase the number of Soums, but rather to select the next up to new 60 groups in the same 15 Soums where work has commenced now. However, government authorities would prefer to cover 30 Soums and construct 2 wells in all of these Soums, rather than providing 60 wells for 15 Soums only (4 per Soum). This issue will be further discussed during the MTR.

26. The training program for herder groups has commenced in all Aimags except Bulgan Aimag. Five herders of each group including group leaders received training on topics related to: (a) pasture management, in particular best practices for adaptation such as rotational use of pasture; (b) group organization; and (c) co-operatives. Training in Bulgan Aimag is planned to start in early October 2012. The mission fully supports the recommendation from the service provider that training should be provided by the facilitators not only to group leaders (knowledge sharing among group leaders) but also to all members of the groups. Trainings and group facilitation, with leaders and members, should be undertaken to strengthen groups, develop transparent and participatory decision making processes, and to promote inclusive approaches. The training of local facilitators should include knowledge and skills in facilitating group organization and participatory planning.

27. Interest in group formation has increased among herders as they recognise the multiple benefits of collective action, labour division and of pooling resources for improving livestock management, pasture and risk man-

agement and for accessing credits and other benefits. Incentives from the government for cooperative establishment and the new legislation (Agricultural Commodities Exchange Law, 2011) are driving the interest in groups for production and marketing. The challenges herders face in pasture management today, and traditional nomadic practice with its customary institutions are conducive to the formation of groups for pasture management. The conceptualisation of herder institutions for the management of common pasture today remains a challenge. Several donor assisted projects have developed models of community organization, some of which are regulated under environmental law and neglect to link community institutions to the land and pasture as the key resource for common use.

28. Investment needs have been identified for all 60 formed groups, including 2 wells in each Soum. According to recommendations of the Inception Mission 2011, deep/engineered wells instead of shallow wells will be supported. Scheduled investments for 2012 are: (i) solar panels (30); (ii) construction of one hay/fodder storage in Khentii Aimag (under construction); (iii) disbursement of funds for fencing directly to groups (actual construction in 2013); (iv) sprinkler/irrigation systems (30) pending delivery; and (v) 15 small tractors for haymaking (procured pending delivery). For project year 1, the PMU made the following budget allocations: (i) 450 million MNT for 30 wells of more than 50 meter depth on average; (ii) irrigation equipment for hay fields and vegetable growing fields for a total of 45 million MNT. This support for irrigation equipment for hay fields and vegetable growing fields was not recommended by the appraisal but MOIA considered it a crucial support for climate change adaptation; (iii) 112 million MNT were allocated for hay making tractors. No bidding was invited for the supply of 15 tractors, while the actual contract price is 5 million MNT per unit of tractor under a government programme (from 8 000 tractors provided on loan basis by the government of the PRC). This decision was made to provide a higher standard of quality (ISO certified) at a lower rate for herders; (iv) 15 million MNT for fencing materials were budgeted for the protection of natural water resources; and (v) USD 100,000 budgeted as investment support for one hay/fodder storage in each of the five target Aimags. The Technical Working Group recommended using funds originally allocated for building winter shelters for the construction of new fodder and hay storages in “otor<sup>2</sup>” areas. As “otor” is an important adaptation practice and government has a role to play in the management of otor areas and service provision thereof, IFAD agreed to this re-allocation of funds. Bidding was organized by the “Otor” committee for the construction of storage facilities at “Kherlenbayar Ulaan” otor area in Delgerkhan Soum, Khentii Aimag.

29. A tentative investment plan was discussed with the PMU and MOF during the mission. The allocation of funds is to be finalised when the financing agreement is amended, which will also include the reallocation of funds for the LGF and the proposed credit line. The tentative investment plan includes: (i) 120 solar power facilities during the project life, costed at 1.0 million MNT/unit. It is agreed that as solar panels are considered as private goods, the project will provide the initial batch of 30 units already purchased in 2012, while the issue of the provision of the remaining 90 units will be discussed at mid-term review; (ii) exploration and drilling of 46 new deep wells (average over 50 meters) at 15 million MNT/unit; (iii) fencing for 100 water sources/springs (20 per target Aimag at 1.12 million MNT/unit (direct transfer to groups); (iv) funds originally planned for construction of winter shelters were cancelled and re-allocated for hay/fodder storage/winter preparation in otor areas (100,000 USD for one hay/fodder storage in each of the five target Aimags); (v) fencing of haymaking areas (6 ha/group) for 120 groups at 0.3 million MNT/unit; (vi) 120 sprinkler/irrigation systems at 10.0 million MNT/unit; (vii) 120 small tractors with haymaking accessories at 10.0 million MNT/unit (the actual contract price is 5.0 million MNT per unit purchased in 2012); and (viii) Construction of water harvesting points, 1 unit per Aimag at 100 million MNT/unit. Any additional investment items should be discussed during the MTR. A summary of tentative investment plan is attached as Annex 4. The PMU will report the above to the Steering Committee for endorsement and submit a request to IFAD for review and approval by 31 October 2012.

30. Despite of the tentative investment plan prepared, through interviews with some herder groups which the mission met during the field visits, some of the pasture and herder groups indicated their priorities and preference for project provided investment different from what MOIA and PMU planned in the tentative investment plan to be supported by the project. In view of the fact that the priorities and needs vary from group to group and in different Soums, the mission recommends that it is essential for the PMU and the service provider to have prior consultations and participatory planning with the members of the groups, in order to understand their priorities and needs for investment to be provided by the project. The investment priorities of the project supported groups should be consolidated and screened by the PMU according to the government policy for public investment and reflected in the AWPBs and procurement plans from 2013 onwards. The mission further recommends that private goods benefiting a limited number of individuals, e.g. solar panel, should be avoided from the project financed investment. In case when private goods are provided to the groups under the project, e.g. solar panel and tractors, the PMU and the service provider should consult with the groups on the ownership, sharing, management and operation and maintenance of the project-provided equipment and facilities. The PMU and the service provider should also prepare detailed operational procedures and financing criteria in consultation with the target group members. One option is to provide a lumpsum of funds with a ceiling for each group to finance the priority investments based on the needs of the groups in line with the government policy for public investment.

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<sup>2</sup> “Otor” is a traditional practice - a migration in autumn typically with herds of large livestock to fatten animals for the winter, or a migration to specially reserved areas (otor areas) in times of winter disasters like “Dzud” or other extreme events.

31. When private goods, e.g. tractors, are provided to the groups, they could be provided under a loan mechanism. The selected NGO will assist herders' groups to decide on a proper repayment schedule and financial mechanism to share the use of tractors among groups' members. Beneficiaries of tractors, as an incentive to share their use, will repay only part, e.g. 80% of the value of the tractors over a period of two years with no interest with e.g. two equal annual installments. Provision of solar panels should follow the same principle of full or partial repayment depending on the decision of the group members. Loan repayments will constitute a revolving fund managed by each herders' group. The group, with the assistance of the selected NGO, will determine the operational procedures for the use of this revolving fund. In addition to the loan repayments, the group might also decide to increase the amount of the revolving fund through voluntary or mandatory savings from its members. Among others, possible uses of the revolving fund include guarantee against a bank loan; contribution to an investment complementary to a bank loan; micro-credits to members for productive and/or non-productive investments. The selected NGO will assist each group to implement its revolving fund, including preparation of a simple manual of procedures, bookkeeping and M&E systems and an activity/financial reporting. When decided after consultation with the group members, this should be reflected in the revised TOR for the service provider in the revised contract and contract extension.

32. Based on the findings of the mission during the field visit to two Soums in Arhangai Aimag, the amount of the Soum Development Fund range from 150 million to 162 million MNT per Soum per year in 2011 and 2012. It is understood that the new Budget Law has a provision that certain percentage of the Soum Development Fund should be allocated by the Soum governments specifically for pasture management. The mission recommends that the PMU and the service provider should consult with the Soum governments in the target area to access the Soum Development Fund to complement the PMPMD support to the groups in pasture improvement and management. The allocation from the Soum governments for the PMPMD groups should be reflected in the AWPBs from 2013 onwards.

33. Climate change adaptation subcomponent consists of support to implementation of pasture management plan, training and climate change adaptation. The outcome target is that approximately 9 450 herder households are better able to respond to climate variability and extreme events. Almost USD 200 000 was budgeted for this subcomponent in 2012. The assessment of the performance of the climate change adaptation subcomponent is moderately unsatisfactory. While the procurement of a number of equipment and facilities for climate change adaptation have either been completed or are in progress, e.g. 30 solar panel, 15 tractors, construction of one hay/fodder storage in Khentii Aimag and 30 units of sprinkler/irrigation systems, most of the GEF funded climate change adaptation activities<sup>3</sup> are yet to start. Conceptually it is justified to concentrate on strengthening groups prior to major investments and training efforts, but it is important that these GEF funded activities should be implemented as soon as possible and included in the AWPBs of 2013 onwards for implementation.

34. Contracting for two specialised services, "Piloting of Herder Group Participation in Index-Based Livestock Insurance" and "Applied Research on Pasture and Climate Change Adaptation Issues (such as drought resistant species)" was originally planned to contract additional service providers. The PMU is planning to include these activities under the contract of the main service provider for the pasture management component. This has merits in terms of promoting coordination of all activities. At the same time, the tasks of the service provider will become even more complex. Reporting from and evaluation of the service providers' activities and outcomes by the Technical Working Group under MOIA will be important. Likewise, the recruitment of a pasture management component coordinator at the PMU experienced and knowledgeable on pasture, livestock and herder organizations issues to oversee the activities of the service provider will be important.

35. By comparing the original application for GEF's funds signed by IFAD and endorsed by GEF's CEO with the project design report, the following three categories of differences are identified: (i) Date of Implementation Start (postponed from October 2010 to November 2011); (ii) Project Design (e.g. 15 basic meteorological stations are not mentioned in IFAD's project design report and financing agreement); and (iii) Co-financing (e.g. IFAD USD 3.1 million grant is replaced with SDR 7.25 million highly concessional loan).

Agreed action	Responsibility	Agreed date
6) To strengthen the functional linkages and synergies between the pasture management and market development components to enable herder groups to benefit from value chain development, particularly through access to credit/guarantee facility.	PMU and the selected service provider.	From 2013 onwards.
7) Focus on providing support to institutional issues of group organization for both pasture management and value addition/production and marketing in order to develop sustainable	PMU and the selected service provider.	From 2013 onwards.

<sup>3</sup> E.g. (i) Training (Veterinary technicians, Well maintenance technicians and Vocational training - poor herders); (ii) Increasing Adaptive Capacity (Ecological pasture management guidelines & monitoring and specific Climate Change Adaptation investments); (iii) Climate change awareness raising (Development of materials, Soum level training and Aimag CCAR events); (iv) Index based livestock insurance; (v) Meteo data for climate monitoring (Equipment and Training); and (vi) Ecological information for Livestock Early Warning System (Equipment and Training).

Agreed action	Responsibility	Agreed date
institutions.		
8) Training should be provided by the facilitators and coordinators not only to group leaders but also to all members of the groups.	PMU and the selected service provider.	From 2013 onwards.
9) Training should be provided in transparent and participatory decision making processes to promote inclusive approaches. The training of local facilitators should include knowledge and skills in facilitating group organization and participatory planning.	PMU and the selected service provider.	From 2013 onwards.
10) The role of government in pasture land planning and management should be considered and the development of collaborative management, as prescribed by existing planning processes, should be supported. In some Soums, the Rangeland Management and Monitoring Committees promoted by the previous Rural Poverty Reduction Project (RPRP) are present, as NGOs or informal groups, and their role should be promoted as well.	PMU and the selected service provider.	From 2013 onwards.
11) Consult with the Soum governments in the target area to access the Soum Development Fund to complement the PMPMD support to the groups in pasture improvement and management. The allocation from the Soum governments for the PMPMD groups should be reflected in the AWPBs from 2013 onwards.	PMU and UMPSC	Immediately.
12) The head and two officers of the Livestock Unit at Soum level are tasked with implementation of the activities of the Mongolian National Livestock Program with 5 components including pasture management, marketing, animal health, breeding and governance. The project activities should have synergy with the program.	PMU and the selected service provider.	From 2013 onwards.
13) For the sustainability of PMPMD project results and impact, local government support, including the Livestock Unit, is important. The capacity of the livestock program officers varies, and they have few resources to undertake their activities. Capacity development needs of the officers should be assessed and trainings designed and delivered. This is particularly important with a view to developing “herder advisors” – herders with special knowledge and skills to advise their group. The approach of “herder advisors” has generated positive experiences in several donor-supported projects and is promoted by the service provider. In the face of significant challenges in developing a functioning extension service for traditional nomadic herders, this approach is key to capacity development among herders, and should be further pursued. The development of local officers of the Livestock Unit as trainers and support staff is important in this respect. The PMU, with the service provider’s input, should closely work with the Livestock Program at central, Aimag and Soum level to ensure synergies.	PMU and the selected service provider.	From 2013 onwards.
14) In support of M&E, groups should be encouraged to establish their own indicators (social, environmental and livelihood) as a tool for planning, implementation and assessment of their own activities. Linked to the project M&E system, this can provide a basis for project evaluations, learning and adjustment of strategies.	PMU and the selected service provider.	From 2013 onwards.
15) Have prior consultations and participatory planning with the members of the groups, in order to understand their priorities and needs for investment to be provided by the project. The investment priorities of the project supported groups should be consolidated and screened according to the government policy for public investment and reflected in the AWPBs and procurement plans.	PMU and the selected service provider.	From 2013 onwards.
16) Private goods benefiting a limited number of individuals should be avoided from the project financed investment. In case when private goods are provided to the groups under the project, prior consultation with the groups on the ownership, sharing, management and operation and maintenance of the project-provided equipment and facilities. Prepare detailed operational procedures and financing criteria in consultation with the target group members.	PMU and the selected service provider.	From 2013 onwards.
17) When private goods provided to the groups, herders’ groups should decide on a proper repayment schedule and financial mechanism with loan repayments to a revolving fund managed by each herders’ group.	PMU and the selected service provider.	From 2013 onwards.

Agreed action	Responsibility	Agreed date
18) Assist each group to implement its revolving fund, including preparation of a simple manual of procedures, bookkeeping and M&E systems and an activity/financial reporting.	PMU and the selected service provider.	From 2013 onwards.
19) Report the tentative investment proposals to the Steering Committee for endorsement and submit a request to IFAD for review and approval.	PMU	By 31 <sup>st</sup> October 2012.
20) Start the implementation of the GEF funded climate change adaptation activities and included in the AWPBs of 2013 onwards.	PMU and the selected service provider.	From 2013 onwards.
21) Recruitment of a pasture management component coordinator at the PMU experienced and knowledgeable on pasture, livestock and herder organizations issues.	PMU	By 30 <sup>th</sup> November 2012.

### Project Management and Policy Support

36. The assessment of the performance of the project management component is satisfactory. The PMU was established with staff appointed, except pending recruitment of an expert to oversee the pasture management component and an administrative assistant who will also work as a translator. The appointment for these positions is planned to be completed by the end of 2012. A Technical Working Group was established at the MOIA, which was not outlined in the financing agreement, but the Working Group was found to be necessary to support the Steering Committee in issues of a more technical and detailed nature. So far, MOIA selected the following 15 soums for implementation of the Pasture Management Component: Ogiinuur, Batsengel and Ulziit Soums of Arkhangai Aimag; Rashaant, Dashinchilen and Gurvanbulag Soums of Bulgan Aimag; Tsagaan Uul, Tsetserleg and Burentogtokh Soums of Huvsgul Aimag; Darkhan, Delgerkhaan and Tsenkhermandal Soums of Khentii Aimag; and Altai, Tseel and Tsogt of Gobi-Altai Aimag. At Soum level, all local facilitators are appointed and have received initial training, office equipment to operate and motorcycles for travel in their Soums. Any further expansion of the project investment Pasture Management Component beyond the 15 soums will be discussed during the MTR.

37. The lack of a pasture law to regulate pasture use is a barrier, but the “herder policy” and the current land law provide for group possession and management. This project’s approach of supporting groups of households defined by their commonly used summer pasture, while incentivizing income generation of sub-groups is a promising approach that reflects an emerging consensus among different projects and programs that have focused on herders’ community organization. Therefore, the PMU together with the service provider should document and analyse the project experiences in pasture management for the development of a suitable model for policy dialogue with the government in pasture management.

Agreed action	Responsibility	Agreed date
22) Undertake an assessment of the performance of the two selected NGOs for SME development and pasture management for IFAD review before extension of contracts with the service providers for the entire project implementation period, with revised terms of reference.	PMU with the service providers.	By end of March 2013.
23) Recruit an expert to oversee the pasture management component and administrative assistant who will also work as a translator.	PMU	By end of 2012.
24) Document and analyse the project experiences in pasture management for the development of a suitable model for policy dialogue with the government in pasture management.	PMU, MOIA with selected service providers.	Continuing.

### D. Project Implementation Performance

38. Project management performance. As indicated above, the overall performance of the project management is satisfactory. Management and coordination of local implementation of the project is very important and local coordinators need clear responsibilities, tasks, targets and training and guidance. As the service providers scale up activities, the role and responsibilities of local coordinators should be reviewed and strengthened and a training schedule developed for their capacity building. To enhance the opportunities of the supervision mission to assess progress, it is recommended to organise, in addition to field visits, a workshop at the next supervision mission with local coordinators, local government officials and representatives of herder groups to jointly evaluate strategies, results and lessons learnt. This would generate a more comprehensive picture, serve as capacity development exercise and strengthen cooperation among all stakeholders in the project. A participatory process of analysis and planning is to be developed in preparation of such a workshop.

39. Monitoring and evaluation. M&E has performed moderately satisfactory. Mirroring the overall pace of implementation, development of the M&E system since project start-up has been partial and iterative. While progress reporting is in its initial phases, the PMU has set up the RIMS 1<sup>st</sup> and 2<sup>nd</sup> level reporting framework;

aligned output reporting to the current logframe; collected basic data provided by the service providers into an excel database; and initiated periodic progress reporting to the PSC. With two months remaining to the end of the fiscal year, the PMU is making a push to organise a RIMS+ baseline survey, and launch Aimag start-up events by end 2012 - leveraged on a revised logframe reflecting clearer targets established in consultation with implementing partners and IFAD.

40. PMPMD's reliance on a set of partnership agreements for delivering benefits to the target group and fulfilling the project's objectives requires that the PMU's M&E functions should include a particular supervisory aspect. These functions primarily require the PMU to: (a) communicate to project partners the information requirements of the project; (b) advise/assist project partners in establishing their results measurement systems; (c) validate reliability and accuracy of collected data and consolidate information centrally at the PMPMD programme level; (d) analyse submitted data, as well as relevant secondary data, to assess the efficacy of the programme in meeting its objectives (including targeting and outreach to women and the poor); (e) track whether the pace of implementation progress and the quality of execution of service provider agreements (such as the efficacy of member-driven decision making processes within PHGs; effective outreach of rural finance to the target group; adequate returns and cash flow to supported enterprises and value chain actors- including accurate reporting of operating costs and equitable profit-sharing in jointly-owned enterprises) are adequate; etc.); and (f) produce timely reports or other knowledge products.

41. To date, development of M&E has been substantially challenged in the context of (i) the absence, until contracting in June 2012, of key implementing and monitoring partners; (ii) the recent selection of targeted soums; and (iii) the various activities not fully specified pending the competitive selection and negotiation of work programmes (within proposals submitted by winning bidders). In this respect, the PMU has focussed on establishing a common understanding between local governments, the project and contracted partners, but this too has been somewhat restrained as a result of electoral cycles at national and local levels. Execution of M&E will continue to be a challenge given that no field presence is envisaged for the PMU. A well-formulated set of targets and M&E operational plan is therefore essential for the PMU to effectively carry out its work. A combination of GIS tools, 'virtual' quantitative reporting from Aimag and Soum levels consolidated in a central MIS, periodic reporting from contracted NGOs, rural finance performance measures captured by groups and partner financial institutions, PMU spot-checks to verify the validity of collected data, and support to qualitative surveys will need to be appropriately balanced. These tools are needed to enable the M&E system to effectively inform periodic performance-assessment, project steering, and policy formulation. It is necessary, therefore, that the PMU develops a convincing work plan and budget for M&E to execute these activities, and secures PSC backing for its implementation.

42. Gender focus. The Market Development component has a strong gender focus. The overall assessment of gender focus is satisfactory. Under the micro-enterprise development activities, groups' membership is mainly constituted of women (above 95%) while leaders of all groups visited by the mission in Bulgan Aimag are also women. As for herders' and producers' groups, the selected service provider will promote women's participation (especially in producers' groups). Gender focus will be one of the eligibility criteria for accessing Guarantee Facility for non-PMPMD beneficiaries. As in other projects promoting herder groups, it was apparent in discussions with herder group members (women and men) during the supervision mission that women's participation in decision making and planning, and access to information, is enhanced. Through the division of labor among households, for example in different herding tasks and vegetable growing, women also benefit and have more opportunities to undertake income generating activities. Women's leadership in herder groups selected so far is approximately 15%; the largest group with 73 member households, has a female leader with experience in group organization and management. Leadership and internal organization and structure of groups are still under development; many of them are discussing the establishment of women's councils within the group.

43. Poverty focus. The overall assessment of poverty focus is satisfactory. All women's groups promoted under the PMPMD micro-enterprise development activities have a significant membership with very poor and poor women, together with better-off ones. When formed, herders' and producers' groups should also include a significant proportion of poor households. Access to financial resources, access to improved inputs and equipment as well as to improved technologies, and inclusion in structured value chains allowing them to reach new markets will greatly enhance the sustainability and profitability of their activities, hence significantly increasing their income. Any change in households' poverty level will be assessed through regular survey, the results of which will be compared to the results of the baseline survey carried out a sample of project's beneficiaries and non-beneficiaries. In the case of non-PMPMD beneficiaries, poverty focus will be one of the eligibility criteria to access the Guarantee Facility. The territorial approach to group organization promotes inclusiveness; poor households are included socially and economically, and benefits to the poor are derived in several ways: through "employment" as herders for wealthier group members, through labor division, poor households may be better enabled to send their herds with other members' herds on "otor"; group agreements on pasture land management promote more equity/equitable access to key resources; poor members benefit through access to group-based resources/equipment/small loans. Support to facilities in otor areas provides a benefit in particular for poor herder households who depend more on otor reserves for survival of their herds as they do not have the ability to prepare for winter, or manage risk, as wealthier herders have. The project support to facilities in otor areas therefore is promoting benefits to the poor. 34.4 % of all group member households are reported by the service provider to have less

than 200 (sheep units) animals, and are therefore to be considered poor. For the selection of trainees for vocational skills training, the well-being level of the selected individuals will be the main criteria.

44. Effectiveness of targeting approach. The overall assessment of targeting approach is satisfactory. The targeting of the project is focusing on poverty and gender. The target group for component 2 are: a) women and men from herder households (and for income generating activities also of Soum center households) and b) female headed households and households listed as poor or vulnerable by local government. For pasture management the approach is inclusive; all herding households/users of a defined pasture unit are to adhere to a pasture management plan jointly developed for the pasture unit by (the majority of) group members and local government. Based on the average poverty incidence in the project Aimags (36 %), only a fraction of the target groups “Women and Men of Herder Households below or near poverty line” and Women and Men of Soum Center Households below or near poverty line” can be supported with investments/trainings other than inclusion in the PHGs and related support. The poverty incidence of 34.4 % of the herder group member households so far illustrates that the targeting approach (inclusive/territorial groups) in the pasture management component is appropriate and reaches the poor in the target areas. However, elite capture of project provided benefits should be avoided.

45. Knowledge management. The overall assessment of knowledge management is moderately satisfactory, as no knowledge management products have been produced by the project. Through its innovative approach, PMPMD has a significant potential to contribute to knowledge management at the national level. By adopting inclusive, territorial methods applied to all users of selected pastures, PMPMD’s approach to pasture management is a departure from previous approaches, which emphasised working with herder groups on livelihood improvement and livestock productivity. Considering the extensive degradation of pastures even beyond the selected soums, this component has a significant potential to generate lessons on herders’ institutions for the use and management of common pasture land, and on how to link them to production and marketing mechanisms. The project should develop regular mechanisms for experience sharing and identifying lessons learnt, among participating groups and Soums, and for presenting these lessons to policy makers. Similarly, the loan guarantee scheme will be the first application of Mongolia’s Law on Guarantee Fund since the passing of this Law on 10<sup>th</sup> February 2012. The value chain subcomponent also has good potential to generate useful lessons; however given the complexity of mobilising various partners around the value chain and the limited institutional capacities in this area, overall execution will be challenging and is likely to produce lessons and best practices only gradually. More generally, as the project progresses and generates lessons and results, it will be useful to establish regular mechanisms for sharing knowledge with Government agencies and with other developmental projects.

46. Partnerships. One NGO is a partner organization for the Micro-Enterprise Development (UMPSC) since June 2012 through a one-year renewable contract while the other NGO responsible for the implementation of activities under the Value Chain Development sub-component has been cancelled and not yet been selected. Commendably, within 3 months, the UMPSC has been able to assist women to form 110 groups (120 planned), to develop training material, to organize awareness campaigns among communities, to provide groups with group management training and will start business management training and planning after the supervision mission. The UMPSC’s operations have been implemented through local facilitators which, in the medium-term, should ensure collaboration, synergy and complementarity between project’s activities, government’s policies, financial institutions, service providers and communities. The partner organization for implementation of the pasture management and climate change adaptation component is the Mongolian Society for Rangeland Management (MSRM); the contract will be reviewed at the end of 2012. The partner organization has a track record of project implementation with herder groups and local governments and is well positioned to address the challenges related to the conceptualisation of a herder institution for pasture land management, to the delineation of boundaries based on customary pastoral use and to developing linkages to the market. The partner organization has established a local implementation structure in all 15 Soums and all local facilitators have received training. Other core activities have been undertaken as scheduled (see B. Overall Assessment of Project Implementation Progress).

Agreed Action	Responsibility	Agreed Date
25) To finalise M&E plan and submit to PSC for approval	PMU with selected service providers.	By end of 2012.
26) To approve baseline survey work plan and budget, complete questionnaire and execution of survey	PMU with selected service providers.	By end 2012
27) To complete database on target area from secondary sources including service providers, administrative data, UNDP poverty maps, etc.	PMU with selected service providers.	By next supervision mission



Agreed Action	Responsibility	Agreed Date
28) To train service providers and aimag/soum personnel on M&E	PMU.	By 30 March 2013
29) To explore use of GIS and remote-sensing for pasture management	PMU/MOAI	By end 2012
30) To develop regular mechanisms for experience sharing and identifying lessons learnt, among participating groups and Soums, and for presenting these lessons to policy makers.	PMU with service providers.	From 2013 onwards.
31) Revise the TOR for contract extension with the two selected service providers with clear responsibilities, tasks, targets and training and guidance for the local facilitators.	PMU with selected service providers.	By end of 2012.
32) To organise, in addition to field visits, a workshop at the next supervision mission with local coordinators, local government officials and representatives of herder groups to jointly evaluate strategies, results and lessons learnt.	PMU	2013 supervision mission.
33) To further enhance women's participation in decision making and planning and access to information and promote more opportunities for women to participate in income generating activities and women's leadership in herder groups.	PMU with selected service providers.	Immediately.
34) To continue to focus the project support and investment to the poor as one of the eligibility criteria to access the Guarantee Facility and avoid elite capture of the project benefits.	PMU with selected service providers.	Immediately.

#### E. Fiduciary Aspects

47. Financial management. The total project costs of PMPMD are estimated at USD 18.4 million consisting of an estimated IFAD loan of USD 11.5 million, a GEF grant of USD 1.5 million, an estimated Government Contribution of USD 0.9 million, and Other Contributions amounting to about USD 4.5 million. The Financing Agreement (Loan-836-MN and FSS-1-MN) for PMPMD became effective on 26th August 2011 and is scheduled for completion on 31 March 2017.

48. The required arrangements for sound financial management have been set up in line with the Financing Agreement. The PMU maintains accounting on an accrual basis. The Project uses the country system named "Aclous" which is very effective. The PMU has followed the accounting law of Mongolia which is consistent with International Accounting Standards. The PMU financial records are backed up to a server for safe-guarding on a regular basis.

49. The overall assessment of financial management is moderately satisfactory. The Mission noticed that the chart of accounts set up in the project accounting system contained a good set of information on Expenditure Category but not on Expenditure Component. Thus, the expenditure reports by Component were prepared manually. The Mission suggests that the chart of accounts be set up to include the information by Expenditure Component so that all reports can be obtained from the financial accounting system directly.

50. The PMU continues to maintain satisfactory up-to-date financial records of transactions and produces timely and reliable periodic financial reports. Accounting data in the PMU accounting system is reliable. The accounting data and accounting transactions are cross checked and finalized by internal control procedures carried out by the PMU and MOF Finance Section on a monthly basis. However, the Mission noticed that the duties of the cashier and accountant were performed by the same staff member. The Mission advised that segregation of these duties is critical to effective internal control and suggested that the PMU should assign different person as a cashier and an accountant.

51. Fund Flow, Withdrawal Applications and Designated Accounts. Two Designated Accounts (DAs) for the loan and the grant in USD were opened and operated by the Ministry of Finance (MOF) at the Mongolian City Bank. Two Project Accounts in MNT were opened and managed by the PMU for project operations. Out of the Authorised Allocation of USD 1.5 million (Loan) and USD 250,000 (Grant), the available funds in the Designated Accounts on 31 August 2012 stood at about USD 1.27 million for the loan and USD 104,620 for the grant.

52. Thirteen (13) transfers amounting to MNT 329.5 million (about USD 244,132) for the loan and six (6) transfers amounting to MNT 198.7 million (about USD 147,198) for the grant were made from the DAs to the Project Accounts to pay eligible expenditures. Transfers were made in an on-going manner when PMPMD had to pay for the services and goods provided to the Project. The smallest of these transfers was only MNT 3 million (approximately USD 2,000). The Mission noted that such frequent small transfers between DAs and PAs caused difficulty in account reconciliation and the Withdrawal Application preparation because they entailed conversion from local currency to USD using the exchange rate prevailing on the date of such transfers.

53. To better support an anticipated accelerated programme implementation and ensure that adequate resources are available in the Project Accounts when needed, the Mission recommends that the Project Accounts be funded in advance and replenished quarterly/bi-monthly from resources of the Designated Accounts in accordance with expenditures incurred under approved AWPBs.

54. Spot checks were conducted on the financial management documents maintained by the PMU including WAs, statements of expenditure (SOEs), Designated Account reconciliations and other financial records and were found satisfactory on the whole. All vouchers raised from the PMU have been adequately filed. However, there were some mis-applications of expenditures between the loan and the grant. For instance, the PMU purchased the project vehicle using grant rather the loan resources as stipulated in the Financing Agreement. The Mission recommended that financial records of transactions should be in line with the Financing Agreement. Thus, the accounting records and funds for these procurements should be adjusted between Loan and Grant Designated Accounts.

55. Disbursement. The overall assessment of disbursement is moderately satisfactory based on the actual disbursement. To date, the one year implementation period has elapsed. Overall, only initial advance payments were made to the Loan and Grant DAs which represent 13%(USD 1.5 million) and 17% (USD 0.25 million) of the approved loan and grant respectively. To measure the physical progress against AWPB, two pending withdrawal applications for replenishment stood at USD 246,523 from the loan and USD 41,840 from the grant. This represents 13% (loan) and 14 % (grant) of the AWPB 2012. (2% and 3% respectively, of the approved loan and grant amounts). Details are presented in Appendix 3.

56. The performance in disbursements with respect to the current AWPB is considered unsatisfactory. Slow disbursements were due primarily to the factors that impeded the flow of funds. These impediments included: (i) a delay in implementing the guarantee fund and formulating the SLAs to establish credit Loan Guarantees. (ii) a slow bidding process due to the 2012 parliamentary elections and (iii) cancellation of the value chain request for proposal and postponing the construction of new deep wells for livestock under the procurement section below.

57. Counterpart funds. The Government shall provide counterpart financing for the Project to cover duties and taxes of the Project. The overall assessment of counterpart funds is moderately satisfactory. Accumulative Government contributions as of 31 August 2012 were in the amount approximately USD 17,000. Adequate counterpart funds were provided by the Government in accordance with the Financing Agreement.

58. Fixed Assets. The Mission was pleased to note that the PMU's Asset Register was updated and in good order. The PMU asset, stock and management procedures were all reviewed and found to be in satisfactory conditions. It was noted that furniture procured using PMPMD resources was labelled properly.

59. The cost of the fixed assets on the Asset Register was reconciled with the corresponding cost as per the accounting system used for the Project. In accordance with the accounting law of Mongolia, the physical verification of the fixed assets at the PMU will be conducted on an annual basis, by PMU-designated representatives. Verification reports had been signed off by the PMU representative, the accountant, the relevant staff member who was responsible for the assets and the director of the PMU. The reports were filed in the PMU. It was noted that the PMU officers had been taking responsibility to ensure due diligence of the management of PMPMD-procured assets.

60. Audit and Financial Reporting. The Mission was pleased to note that the Project had submitted the consolidated semi-annual financial statements to IFAD within the time period specified in the LTB.

61. The Mission drew attention to the fact that the first audit report and audited financial statements for PMPMD for the period from 26 August 2011 (entry into force) to 31 December 2012 shall be submitted to IFAD prior to 30 June, 2013.

62. Furthermore, the Mission reminds PMPMD that in accordance with the procedures and criteria set forth in the IFAD Guidelines on Project Audits, the Government should select independent auditors no later than 120 days after entry into force of the Financing Agreement. They must then confirm to IFAD that these auditors have been duly appointed.

63. Compliance with loan covenants. The Programme is generally in compliance with majority of the loan covenants excepts in the following cases which are further elaborated in Appendix 5 – compliance with the loan covenants: (a) Section B.9 is partially complied; (b) Section E.2 has yet to be complied with; (c) Paragraph 4.1.2 of Schedule I is not complied; (d) Paragraph 4.2.2 has yet to be complied with.

64. Procurement. The majority of the 2012 planned procurement has been undertaken during the course of the current fiscal year on a timely basis except for the construction of deep wells and the procurement of a service provider for value chain development under the Market Development Component. The postponement of the well construction to 2013 was attributed to a failure in identifying eligible and compliant bidders in 2012. The RFP

(request for proposal) for the value chain service provider was cancelled as it failed to identify an experienced and qualified service provider. A detailed 2012 planned vs. actual procurement plan and a detailed 2012 planned vs. actual procurement plan will be attached in annex 4 to supervision report.

65. In 2012 based on the current national procurement regulation and law, all procurement activities of the Project are undertaken either by the Project PMU or the Lead Implementing Agency. In accordance with the provision of the June 2011, amendment to the national procurement regulations and law, as of November 2012 or early 2013 procurement responsibilities of the Government of Mongolia would be transferred from the Ministries and Line Agencies to the National Procurement Agency of the Government of Mongolia as the oversight and regulatory body of the Government of Mongolia. It is envisaged that this Agency would initially be staffed with approximately 60 procurement professionals of multi-disciplines which will be responsible in the preparation of the bid documents, bidding processes, and contracting, while a central evaluation committee would be established to review all bids. The monitoring of contracts and performance management would remain under the responsibilities of the Ministry and Line Agencies.

66. The mission recognises the value additions and advantages of the centralised procurement functions however given the relative small value and noncomplex procurement undertaken by this project, the mission proposes that the Project Lead Agency requests for a deferment of the decision to transfer the procurement responsibilities of this project to the Central Procurement Agency until such time the Central Procurement Agency is fully operational and is able to undertake and meet the demands of national and project procurement avoiding any significant delay in activities of the project. The PMU and MOIA should finalise the procurement arrangements and responsibilities for the project with MOF and the Central Procurement Agency.

67. The planned average budget of 15 million MNT for well construction is not sufficient for Gobi Altai Aimag due to the remoteness of the Soums and the required drilling depth. Therefore, the budgets for Khentii, Bulgan and Arkhangai Aimags were reduced to about 14 million MNT and the Gobi Altai Aimag budget was increased to 16.5 million MNT. The use of a mining company active in the area has been suggested by the local government. The mining company has the technical capacity and drilling equipment to undertake the deep well construction based on a cost sharing agreement with local government. The PMU should explore this option with the local government of Gobi Altai Aimag request to IFAD for "direct contracting" of the mining company to undertake the well construction. The other possible options for the project include the procurement of all 6 wells in Gobi Altai aimag a single bid package to encourage economies of scale and competitive participation of the construction firms nationally or as a last option the construction of these well through the direct contracting with the only construction firm in Aimag capable of undertaking the construction.

68. Review of various the procurement activities during 2012, mission observed lapses in controls and documentation processes when procuring goods through local shopping. These lapses are attributed to inadequate specifications for goods and equipment; non availability of documentation and records which form a formal process of obtaining quotation from supplier and vendors; and the inadequate evaluation of the quotations based on the specification and quotations received.

69. The single Project vehicle purchased through a competitive bidding process was imported from Japan at a cost of USD 63,478.24 inclusive of freight. However, the distributor (Bodi Automotic LLC) that submitted the bid priced the vehicle as USD 88,888.88 (40% more than the import price) or MNT 122,000,000.00 exactly matching the budgetary provision established for the vehicle. The procurement committee's decision to award the contract to Bodi Automotic LLC (the only sole bidder to participate in the bidding) was based on the merit that Bodi Automotic LLC was the technically qualified lowest bid received. The vehicle purchased is not covered by an international 3 year or 36000 mile, Toyota warranty but a local warranty issued by Bodi Automotic LLC for one year which does not clearly establish the legal provision of the warranty cover.

70. Procurement of 15 motor cycles was undertaken through a local shopping exercise. The 15 motor cycles were imported from China at a cost of USD 9,124.00 by the distributor B&G Company. The procurement awarded to B&G Company, the distributor of Honda motorcycles based its lowest submitted quotation of USD 18,181.80 or MNT 27,000,000.00 is almost 100% above its import price. The mission also noted the custom duties amounting to approximately MNT 586570.05 for the motorcycles have not been deducted and has been incurred against IFAD resources.

71. The motor cycles purchased are not covered by an international, Honda warranty but a local warranty issued by B&G Company for 6 months which does not clearly establish the legal provision of the warranty cover.

72. The mission was unable verify if the purchases of other office equipment were exempted from custom duties. The duties paid or exempted were not evident from the documentation maintained by the Project.

73. IFAD procurement guidelines require Borrowers/Recipients to demonstrate efficiency and economy in undertaking project-related procurement, to avoid undue implementation delays and to achieve value for money. Procurement must be well organized, carried out correctly with regard to quantity, quality and timeliness, and at the optimum price, in accordance with the appropriate guidelines, principles and regulations. Processes must be

proportionate to the procurement activity, so that the overall cost of conducting the procurement process is minimized and tailored to the size of the budget for the activity being undertaken, while upholding the guiding principles of procurement.

74. In 2012 the Project made significant savings by opting to procure 15 small tractor for hay making and 30 small solar power facilities from government project framework agreements, which provide the tractors and solar power facilities at prices lower than market prices. The mission was informed that from late 2012 onwards the concessional tractor programme will continue. While the requirement for additional solar power facilities would be decided at MTR, the project should procure the remaining 105 units of tractors and accessories from the same programme at concessional prices.

75. The Project currently maintains a contract register per its Procurement Plan and it is adequately monitoring the contracts. Performance monitoring of the services providers need to be introduced and this is discussed in the M&E sections of this Aid Memoir, linking them to performance indicators and ensuring that the services providers are delivering services in accordance with the term of reference. The mission also noted that currently the project does not maintain any form of controls to monitor performance guarantees. A simple log should be maintained by the Procurement Officer which would enable the officer to reference the performance guarantee and their key details so that when change order or delays occur the performance guarantees are extended accordingly.

Agreed Action	Responsibility	Agreed Date
35) Segregate the duties of the cashier and accountant for effective internal control and assign different persons as a cashier and an accountant.	PMU	By end of November 2012.
36) To ratify frequent small transfers between DAs and PAs which caused difficulty in account reconciliation and the Withdrawal Application preparation.	PMU	By end of November 2012.
37) The financial records of transactions should be in line with the Financing Agreement. Thus, the accounting records and funds for these procurements should be adjusted between Loan and Grant Designated Accounts.	PMU	By end of November 2012.
38) Submit RIMS report of 2012 to IFAD.	PMU	By 31 <sup>st</sup> January 2013.
39) Submit annual progress report to IFAD.	PMU	By 15 <sup>th</sup> February 2013.
40) Submit appointment of auditor to IFAD.	PMU	By 30 <sup>th</sup> November 2012.
41) Submit financial statement of 2012, covering all expenditures since the start of the project, to IFAD.	PMU	By 31 <sup>st</sup> March 2013.
42) Submit audit report of 2012, covering all expenditures since the start of the project, to IFAD.	PMU	By 30 <sup>th</sup> June 2013.
43) Submit AWPB of 2013 to IFAD.	PMU	By 30 <sup>th</sup> November 2012.
44) Submit 18-month procurement plan for 1 <sup>st</sup> January 2013 and 30 <sup>th</sup> June 2014 to IFAD.	PMU	By 30 <sup>th</sup> November 2012.
45) Seek deferment of decision to centralize project procurement and finalize the procurement arrangements and responsibilities for the project with MOF and the Central Procurement Agency.	PMU/MOIA/ Central Procurement Agency.	01 January 2013
46) Explore options on the construction of wells in Gobi Altai Aimag and revert to IFAD with recommendations.	PMU/Local Government	31 March 2013
47) Establish clear procedures for local shopping and evaluation of procurement under local shopping and maintain a log to monitor performance guarantee and other bank guarantee received.	PMU	31 December 2013
48) Ensure adequate market research is carried out demonstrating efficiency and economy to achieve value for money.	PMU	01 November 2012
49) Custom duties paid for purchase of motorcycles and any other equipment/good or services should be refunded to IFAD.	PMU	31 December 2012
50) Procurement of 105 tractors under the bilateral government programme at concessional prices.	PMU/MOIA	31 March 2013

## F. Priorities for AWPB 2013

76. The following priorities are proposed for now and the AWPB of 2013: (i) Consolidation and intensive training of the PHGs and women groups established in 2012 to strengthen their capacity and skill levels and improve group management; (ii) Recruit a team of individual consultants working together with a local NGO for value chain development; (iii) Increase the number of local facilitators for SME women's groups from one per Aimag to one per Soum (20 in total) to increase efficiency and proximity with and accessibility to groups; (iv) Undertake a second screening of all groups already formed to avoid elite capture; (v) harmonize the schedule of training in business management, planning and project development with the implementation of the Loan Guarantee Facility to avoid women's groups loan applications to be rejected by banks due to lack of collaterals; a more proactive role to be played by the UMPSC in proposing alternative activities to women to avoid covariant risk for both financing institutions and women's groups; (vi) Request IFAD for a reallocate USD 0.5 million out of USD 3.4 million originally allocated for the loan guarantee fund and use this amount as a credit line; (vii) Decrease the number of targeted women's groups to be formed and trained during the five-year project period from 550 to 360; (viii) Implement the PMPMD financed LGF (viii) Report a tentative investment plan to the Steering Committee for endorsement and submit a request to IFAD for review and approval by 31 October 2012; (ix) Prior consultations and participatory planning with the members of the groups, in order to understand their priorities and needs for investment to be provided by the project; (x) When private goods are provided to the groups under the project, consult with the groups on the ownership, sharing, management and operation and maintenance of the project-provided equipment and facilities, with detailed operational procedures and financing criteria prepared in consultation with the target group members; (xi) Consult with the Soum governments in the target area to access the Soum Development Fund to complement the PMPMD support to the groups in pasture improvement and management; (xii) Undertake an assessment of the performance of the service providers for IFAD review before extension of contracts with the service providers for pasture management and women group formation and training for the entire project implementation period; (xiii) Start the implementation of the GEF funded activities from 2013 onwards; (xiv) Recruitment of a pasture management component coordinator at the PMU experienced and knowledgeable on pasture, livestock and herder organizations issues to oversee the activities of the service provider and an administrative assistant/translator; (xv) Review and strengthen the role and responsibilities of local coordinators with a training schedule developed for their capacity building; (xvi) Complete the RIMS+ baseline survey, and launch Aimag start-up events by end 2012; and (xvii) Finalization of agreement with the Procurement Policy Department of MOF and the newly established Central Procurement Agency for the procurement arrangements for the project.

## G. Sustainability

77. Institutional sustainability. The project has given highest importance to institutional sustainability in its design and implementation. The core strategy has been to implement the project's activities by sustainable institutions and develop organizations and methodologies to ensure sustainability. The Market Development component is implemented through two service providers while the Guarantee Facility mechanism will be implemented firstly within the MOF and the PMU and then in a licensed financial institution supervised by the Financial Regulatory Commission that will ensure its financial sustainability. The project will promote the legalization of communities' entities (partnerships and cooperatives) to ensure access to financial resources. In addition, linkages between community's entities and other stakeholders in value chains promoted and structured by the project will continue after its completion based on market dynamics. UMPSC local facilitators will also promote strong collaboration with local government at Soum and Aimag levels and will ensure that project activities are strongly anchored in government's development policies. The project approach of supporting herder groups that are based on their customary, commonly used pasture areas, and the applied methodology of defining/re-confirming these boundaries with not only member households, but with households from neighbouring areas and with bag and Soum government officials, is the core strategy to build a basis for sustainable institutions. This important approach of participatory, inclusive and transparent decision making on groups and boundaries is also followed through with regard to the sub-group organization. Groups may or may not identify themselves as consisting of sub-groups, based on small enterprise activities that are underway, on previous group organization through donor-supported projects, or – most importantly perhaps – on customary household organization; the latter would typically be a "Khot Ail", the traditional group of households, tied through kinship, that manage livestock herds together. Several Khot Ail in most cases form a pasture herder group. While the current land law provides a basis for group based pasture management including contractual arrangements that describe use rights to the members, soum governors are often reluctant to conclude such contracts; a law on pasture lands that would define the regulation of pasture land use, however, is still lacking. This is perceived by a majority of herders, with small and medium sized herds, as a barrier to implementing pasture land management; a law that regulates pasture use and provides for mechanisms for enforcement of pasture land management plans and defines use rights of herder groups, remains an important prerequisite to enhance sustainability of herder's institutions. The project is addressing the whole spectrum of herder institutions – from small groups, or Khot Ails, for traditional livestock management, voluntary groups (cooperatives) for production, larger marketing cooperatives, and territory based pasture groups with jointly agreed pasture management norms.

78. This presents an opportunity to assist in policy formulation with regard to herder institutions for pasture management and the linkage of herders to the market. Lessons learnt, and shared/discussed broadly with other donor-assisted projects addressing the same issues, could make a valuable contribution in conceptualising the different herder institutions and developing a policy framework for regulation of pasture and for enabling conditions for market access.

79. Social sustainability (Empowerment). In the context of this project, empowerment and social sustainability are conceptualised through strengthening community institutions and their collaboration with local governments. Through group formation, not only natural resource management issues are being addressed; also governance is improved as the dialogue with local government, and flow of information from government to rural citizens, is improved. Legislation that will define use rights to groups will be an important step to promote empowerment of the primary resource managers, the livestock herders and their institutions, to encourage investment into natural resource management, and to make resource management decisions and develop their livelihoods based on more secure resource use tenure. In addition, women's empowerment is also to ensure through their increased role in all communities' entities formed and strengthened under the project.

80. Economic and financial sustainability. The project provides access to financial and non-financial services that enable project-promoted entities to develop their businesses in a sustainable way, hence enhancing their income and financial capacity. In particular, repeat access to loans enables entities to build up their financial assets which, in the medium-term, enable them to provide the required collaterals to lending institutions without the assistance of the Guarantee Facility. In addition, the inclusion of all project-promoted entities in structured value chains and the promotion of backward and forward linkages between all value chain stakeholders increase the long-term financial sustainability of activities developed. A more pro-active role of the UMPSC in promoting alternative activities to women's groups is also a factor of economic and financial sustainability as it reduces covariant risk for the lending institutions and for the groups. Experiences with developing herder institutions in several projects in Mongolia suggest that a common fund from which to finance joint activities/investments in natural resource management, and extend credits and/or grants to members is an important mechanism to develop sustainability as well as further strengthen the institution by building mutual trust. Access to credit to support value addition/production and linkages to markets is the second important factor for groups' economic development. Government policy and incentives support collective action of herders and in particular their organization in cooperatives as legal entities, for both production and marketing. The project, through the service provider, is actively supporting this approach; importantly, however, groups are encouraged to self-determine the most suitable option for them; a sub-group, such as a customary Khot Ail of several households, or several Khot Ail, may form a cooperative for production, a whole herder group for pasture management may choose to become a cooperative, and it is up to groups to join a larger, soum-wide marketing cooperative. The legal environment, with the coming into force of the Agricultural Commodities Exchange Law in 2011, is conducive to the collective production and marketing efforts supported by the project.

81. Technical sustainability. Selected NGOs for both the value chain development and for micro-enterprise development will provide community's entities with access to new and innovative technologies enabling them to produce at a better price and with improved quality. Linkages with other stakeholders in structured value chain will also be a vector for improved technologies leading to technical sustainability.

82. Environmental sustainability. Herder group formation has proven to be an important strategy to facilitate traditional seasonal movements, and rotational use of summer pasture; these practices are key to the sustainable management and use of grasslands in Mongolia, and had declined dramatically following the rapid transition after 1990 when institutions for pasture land management were weak. Under climate change conditions, with a significant decline in water sources, this strategy is even more important in order to reduce the concentration of grazing around remaining water sources. The provision of wells also plays a role in support of sustainable pasture management; many pasture areas have been under-utilised, due to the lack of pasture water supplies while others are over-grazed. With group-based pasture management, as an integral part of soum-wide pasture land management, well rehabilitation and/or establishment can make a significant contribution to sustainable pasture management on soum level or even broader scale. Investments and activities in fencing of water sources, if undertaken properly, contribute to the preservation or restoration of catchment areas, riparian areas and of ecosystem services (water provision) and biodiversity values. They are an important measure in climate change adaptation, and contribute to ongoing efforts in improving watershed conservation and management in Mongolia.

83. Exit strategy. The exit strategy is embedded in the project's design and its implementation through sustainable public and private institutions. Gradually, herders' and producers' entities will enter into agreements with other value chain stakeholders without any assistance from the project and these stakeholders will provide these entities with improved inputs and technologies, sustainable access to markets while agreements will constitute adequate collateral for financing institutions. Relationships between stakeholders will be influenced by market demand and supply. The PMPMD Guarantee Facility will be included in a larger Guarantee Fund that will continue to extend guarantees to banks after project completion. Internal strengthening of groups, whether formal or informal, is an important strategy in the early stages; however, for sustainable outcomes, the establishment of the groups as legal entities will be important. Throughout the process of strengthening and supporting groups, the members should be provided with information and training so they can make informed decisions what legal form

is most suited for their objectives and circumstances. At the same time, project support in policy formulation on herder's institution, their use rights of commonly used pasture, and on the development of a pasture law and regulation of pasture use, will be an important strategy to build enabling conditions for sustainable results. Another key aspect will be the integration of group based plans into the soum pasture land management plan as a routine procedure, jointly monitored and evaluated and endorsed by local government. With local budgets/soum development funds expected to increase significantly, it would be important also to practice participatory budget planning to promote the inclusion of costs to support group plans into local budget planning processes, in order to develop co-financing and co-management of pastureland management by users and government.

Agreed action	Responsibility	Agreed date
51) To explore opportunities to assist in policy formulation with regard to herder institutions for pasture management and the linkage of herders to the market and develop a policy framework for regulation of pasture and for enabling conditions for market access.	PMU with service providers.	From 2013 onwards.
52) To explore opportunities for legislation to define the use rights to groups to encourage investment into natural resource management, and to make resource management decisions and develop their livelihoods based on more secure resource use tenure.	PMU with service providers.	From 2013 onwards.
53) To explore opportunities to set up a common fund from which to finance joint activities/investments in natural resource management and extend credits and/or grants to members. To take the opportunity of the Agricultural Commodities Exchange Law in 2011 for collective production and marketing efforts supported by the project.	PMU with service providers.	From 2013 onwards.
54) To promote linkages with other stakeholders in structured value chains to improve technologies leading to technical sustainability.	PMU with service providers.	From 2013 onwards.
55) To promote best practices in herder group formation to facilitate traditional seasonal movements, and rotational use of summer pasture for sustainable management and use of grasslands in Mongolia.	PMU with service providers.	From 2013 onwards.
56) To provide project support in policy formulation on herder's institutions, their use rights of commonly used pasture, and on the development of a pasture law and regulation of pasture use and integrate group based plans into the soum pasture land management plan as a routine procedure.	PMU with service providers.	From 2013 onwards.

## H. Impact

84. Physical and financial assets. The assessment of physical and financial assets is not feasible. In the absence of any activity related to the Market Development component, no project impact can be measured on physical and financial assets. It is expected that communities' entities through access to financial resources at favourable terms and conditions will be able to increase both their physical and financial assets. This will be reinforced by the set of complementary activities implemented by the project such as inclusion in structured value chains, access to markets, to improved inputs and technologies, and access to advisory services. Investments previously described will enhance physical assets of the groups and access for members; however it is too early a stage in implementation to measure how these are impacting livelihoods, natural resources as well as social aspects. The suggested repayment procedure and establishment of group-based revolving funds are based on experiences that such a mechanism strengthens social coherence as well as the opportunities to develop livelihoods through diversification and value addition.

85. Food security. It is too early to measure and assess the project impact on food security. Herder group organization promotes opportunities for diversification of livelihood strategies through labour division (vegetable growing, for subsistence and selling), as well as for value addition (dairy processing) and others, thus contributing to food security. Management practices promoted by groups for pasture land, pasture irrigation, and protection of water resources all contribute to improving pasture condition. This, along with activities for animal health and breeding, will impact livestock quality as well as survival rate, thereby contributing to food security.

86. Increase in incomes. In the absence of access to credit for PMPMD beneficiaries during the first year of the project, no increase in their income can be reported. The implementation of the PMPMD Guarantee Facility will provide easier access to credit for PMPMD beneficiaries while the PMU will ensure the synergy between the two components as far as access to credits and to the PMPMD guarantee facility is concerned for herders' groups formed under the Pasture Management component.

87. Policy impact. The project has not yet had any impact on policy. However, the collaboration at Soum and Aimag levels between the project-contracted service providers and the local government will ensure complete integration of project's activities in the government policy and collaboration with public sector institutions. In addition,

tion, participatory approach, gender and poverty-focused activities can be included in governmental development actions. The activity of the PMPMD Guarantee Facility (inclusive of non-PMPMD beneficiaries) will pave the way to the implementation of a nation-wide Guarantee Fund and its results and impact will influence the financial and operational procedures of the Guarantee Fund. As indicated in Knowledge Management section, the project has significant potential for informing policy-making with respect to herders' institutions and pasture management for the use and management of common pasture land, and on how to link them to production and marketing mechanisms; the project should develop regular mechanisms for experience sharing and identifying lessons learnt, among participating groups and Soums, and for presenting these lessons to policy makers.

88. Other impacts. While a number of environmental benefits are also foreseen, at this early stage, it is not possible to indicate these prospective impacts. The use of GIS and remote sensing may assist the project to assess impact in this respect.

Agreed action	Responsibility	Agreed date
57) To monitor project impact on physical and financial assets.	PMU with service providers.	From 2013 onwards.
58) To monitor project impact on livestock quality, survival rate, thereby contributing to food security.	PMU with service providers.	From 2013 onwards.
59) To ensure the synergy between the two components as far as access to credits and to the PMPMD guarantee facility is concerned for herders' groups formed under the Pasture Management component.	PMU with service providers.	From 2013 onwards.
60) To develop regular mechanisms for experience sharing and identifying lessons learnt, among participating groups and Soums, and for presenting these lessons to policy makers.	PMU with service providers.	From 2013 onwards.

## I. Conclusion

89. From the Effectiveness of the project and the start-up workshop in November 2011, the project has completed a large part of the agreed start-up preparatory work as provided in the AWPB of the first project year of 2012. The MOF and PMU also worked actively in the preparation for the operations of the loan guarantee fund and consultations with the MOIA and MOL for the project beneficiaries to access to the Employment Generation Fund and the SME Development Fund at MOL. Overall, the project implementation progress is satisfactory.

90. The project management and its implementing partners should focus on the following priorities from 2013 onwards, in order to achieve the agreed development objectives:

- 1) Finalisation of the institutional and implementation arrangements and operational procedures for the loan guarantee fund; channelling of the reallocated credit line from the IFAD loan to eligible participating banks following the same procedures and criteria as the Employment Generation Fund; and execution of the MOA between MOF, MOIA and MOL for PMPPMD beneficiaries to access financing from EGF and SME fund.
- 2) Assessment of the performance of the two selected NGOs for SME development and pasture management for IFAD review before extension of contracts with the service providers for the entire project implementation period, with revised terms of reference.
- 3) Undertaking prior consultations and participatory planning with the members of the PHGs to understand their priorities for investment to be provided by the project and reflected in the AWPBs, with operational procedures and funding criteria to be prepared by the PMU in consultation with the target group members through the recruited NGOs.
- 4) Undertaking consultations with the soum governments in the target area to access to the Soum Development Fund to support the groups supported by the project.
- 5) Further strengthening of the coordination and cooperation with the Soum and Aimag governments in supporting the groups formed by the project.
- 6) Identification of specific feasible value chains for undertaking by the beneficiaries during the project implementation period.
- 7) Documenting and analyzing the project experiences in pasture management for the development of a suitable model for policy dialogue with the government in pasture management.
- 8) Improving the PMU's M&E functions to include particular supervisory aspects.
- 9) Enhancing fiduciary controls to achieve value for money.

91. Signed by the parties named below on 5<sup>th</sup> October 2012 in Ulan Bator, Mongolia.



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Ministry of Finance  
Mongolia

Lkhasuren Choi-Ish  
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### Appendix 1 Summary of project status and ratings

Project 1455 [836] Project for Market and Pasture Management Development - Draft

#### Basic Facts

Country	Mongolia	Project ID	1455	Loan/DSF Grant No.	L-I-836-MN
Project	Project for Market and Pasture Management Development			Supp. Loan/DSF Grant	G-FSS-1-MN
Date of Update	5 <sup>th</sup> October 2012			Financing terms	HC
Supervising Inst.	IFAD/IFAD				
No. of Supervisions	0	No. of Implementation Support/Follow-up missions	2 (including start up workshop in November 2011)		
Last Supervision	24/09-05/10/2012	Last Implementation Support/Follow-up mission	18/05-03/06/2012		

					USD million	Disb. rate %
Approval	11-May-2011			Total costs	18.37	
Agreement	17-Jun-2011	Effectiveness lag	3.6	IFAD Total	11.48	
Effectiveness	26-Aug-2011	PAR value	-----	IFAD loan	11.48	13 <sup>4</sup>
MTR				DSF grant		
Current completion	30-Sep-2016	Last Amendment		IFAD grant		
Current closing	31-Mar-2017	Last Audit		Domestic Total	5.38	
No. of extensions	0			Beneficiaries	1.83	0
				Government (National)	0.90	0
				Domes. Fin. Inst.	2.66	0
				Cofinancing Total	1.50	
				GEF	1.50	17

#### Project Performance Ratings

B.1 FIDUCIARY ASPECTS	LAS T <sup>5</sup>	CURREN T	B.2 PROJECT IMPLEMENTATION PROGRESS	LAS T	CURREN T
1. Quality of financial management	4	4 <sup>6</sup>	1. Quality of project management	5	5
2. Acceptable disbursement rate	5	4 <sup>7</sup>	2. Performance of M&E	4	4
3. Counterpart funds	4	4	3. Coherence between AWPB & implementation	5	3
4. Compliance with loan covenants	4	4	4. Gender focus	4	5
5. Compliance with procurement	NA.	4	5. Poverty focus	4	5
6. Quality and timeliness of	NA.	4 <sup>8</sup>	6. Effectiveness of targeting	4	5

<sup>4</sup> The initial deposit from the Loan Account to the Designated Account.

<sup>5</sup> Rating provided in the IFAD portfolio review in June 2012.

<sup>6</sup> There were some mis-applications of expenditures between the loan and the grant and no segregation of duties for cash management.

<sup>7</sup> Based on actual expenditures from the Designated Account.

<sup>8</sup> The first audit will be due by 30 June 2013.

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audits			approach		
			7. Innovation and learning	4	4
B.3 Outputs and outcomes	Last	Current	B.4 Sustainability	Last	Current
1. Market Development Component	NA	3	1. Institution building (organizations, etc.)	4	5
1.1. Value chain Development	4	2	2. Empowerment	4	4
1.2. Small and micro-enterprise development	4	4	3. Quality of beneficiary participation	4	4
1.3. Loan Guarantees	4	3	4. Responsiveness of service providers	4	4
2. Pasture Management and Climate Change Adaptation Component	NA	4	5. Exit strategy (readiness and quality)	4	4
2.1. Pasture management	4	4	6. Potential for scaling up and replication	4	4
2.2. Resilience to climate change	4	3			
3. Project Management and Policy Support	NA	5			

B.5 Justification of ratings:

Generally, processes are in place and the overall project implementation progress is on track.

Overall Assessment and Risk Profile

	Last	Current
C.1 Physical/financial assets	4	4 <sup>9</sup>
C.2 Food security	4	4 <sup>10</sup>
C.3 Overall <b>implementation progress</b> (Sections B1 and B2)	4	4
Rationale for implementation progress rating		
C.4 Likelihood of achieving the development objectives (section B3 and B4)	NA.	4
Rationale for development objectives rating		

Legend:

- (6) Highly satisfactory. Targets/requirements met or exceeded. Considered as best practice.
- (5) Satisfactory. Targets/requirements met with only minor delays or set-backs.
- (4) Moderately satisfactory. Most targets/ requirements met but delays or set-backs experienced.
- (3) Moderately unsatisfactory. Some targets/ requirements met but issues/constraints have negatively affected implementation.
- (2) Unsatisfactory. Few targets/requirements met. Issues/constraints remain unresolved. Delays have seriously undermined implementation.
- (1) Highly unsatisfactory. Almost no targets/ requirements met. Consideration should be given to cancellation/suspension.

C. Risks Short description of major risks for each section and their impact on achievement of development objectives and sustainability

Fiduciary aspects n/a: No major fiduciary risk has been identified.

Project implementation progress n/a: Project implementation progress in largely on track.

Outputs and outcomes n/a: NA.

Sustainability n/a: Good likelihood to achieve sustainability.

Proposed Follow-up

Issue / Problem	Recommended Actions:	Timing:	Status:
New law on credit guarantee funds.	The adoption in February 2012 of a new law on credit guarantee funds will require changes to the implementation modalities of the loan guarantee scheme under the project. These changes should be made as soon as the precise implications of the new law are known. IFAD will field technical assistance for the design of the changes and preparation of the required amendments to the Financing	September- November 2012	Completed

<sup>9</sup> It is too early to assess.

<sup>10</sup> It is too early to assess.

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<p>To assist the government to (i) finalise the manual of operational procedures for the Loan Guarantee Fund; (ii) finalise the institutional and implementation arrangements for the Loan Guarantee Fund; (iii) channelling of credit line funds to participating commercial banks through subsidiary loan agreements; (iv) arrangements for training of MOF Unit staff.</p>	<p>Agreement. Follow up mission.</p>	<p>January/February 2013.</p>	<p>Planned.</p>
<p>Additional observations: None.</p>			

**Appendix 2 Progress against Previous Mission Recommendations (start-up workshop in November 2011)**

Action Area	Action Agreed	Agreed Date for action to be taken	Whom	Progress in completion of action
<u>General conditions precedent to withdrawal</u>	Project key staff such as director, accountant and procurement officer shall have been duly selected and appointed	By the end of 2011	MOFALI	Project director and accountant were selected in the October and were appointed in November. Procurement officer was selected and appointed in March.
	Office should be taken	By end of 2011	MOFALI	2 office rooms were provided
	Other staff shall have been duly selected and appointed	By end of March 2012	MOFALI & PMU	Secretary and 1 coordinator have not yet been selected
	Designated accounts and the project accounts shall have been opened	By end of 2011	MOF & PMU	All accounts were opened with Ulaanbaatar city bank by MOF in December
	Project steering committee shall have been established	By end of 2011	PMU	PSC was established by the order of the state secretary of MOFALI in December 2011
	AWPB should be reviewed by IFAD and approved by the PSC	Q1 2012	PMU & PSC	Done
Pasture & climat change adaptation	WA for initial deposit should be sent	Q1 2012	PMU	Done
	Selection of soums	Q1 2012	MOFALI	Totally 15 Soums, including 3 soums from each programme aimag was selected. Main criteria were that 1/ Proposal from local authorities 2/ Soums, where pasture reserve area is located and those one bordered with pasture reserve area /avoidance from overlap with other projects
	Work out TOR of service providing-NGO	The first quarter of 2012	PMU	TOR was worked out and reviewed and commented by IFAD in March 2012
	Organize the bidding to select NGO	Second quarter	PMU and MOFALI	Short listing and bidding was organized in April-May and contract was made in the beginning of June with the Mongolian Society for Range Management, which won the bidding.
Investment	Engineering well with a depth of more than 50 meters instead of shallow wells	Third and fourth quarter	PMU	MNT 450 million were budgeted for 30 engineering wells. The bidding was announced and evaluated in July, but no company was selected and as recommended by IFAD the bidding was cancelled and will be announced next year.
	Meteorological equipment	Third and fourth quarter	PMU	As agreed with IFAD, it will be supplied next year after assessment is made by NGO in discussion with local relevant authorities
Capacity building	Trainings on vet and breeding services, livestock insurance and training for well		PMU and NGO	As agreed with IFAD, these trainings will be conducted next year after assessment is made by NGO in discussion with local herding pasture

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<u>Action Area</u>	<u>Action Agreed</u>	<u>Agreed Date for action to be taken</u>	<u>Whom</u>	<u>Progress in completion of action</u>
	technicians and vocational training for herders			groups and authorities
Market development component	Work out TOR of service providing-NGOs	The first quarter of 2012	PMU	TOR was worked out and reviewed and commented by IFAD in March 2012
	Organize the bidding to select NGO	Second quarter	PMU and MOFALI	Short listing and bidding was organized in April-May. No NGO was selected because there was no one which is experienced in value chain development.
Loan guarantee	Law on credit guarantee will be approved and be effective	First quarter	MOFALI and MOF	Law on credit guarantee was approved by the Parliament and became effective in April.
	MOU about loan source will be signed between MOF, MOL and MOIA	First quarter	PMU, MOF and MOIA	It has not yet been signed.
	Loan guarantee officer shall be recruited and be placed at MOF	1 April	PMU and MOF	It has not yet implemented due to making amendment if the loan agreement

**Appendix 3 Financial: Actual Financial Performance by Financier; Disbursements by Category and by Component**

Table 3A:		Financial performance by financier as at 31 August, 2012				
Expressed in USD						
Financier	Approval	AWPB 2012 - Approval	Disbursed by IFAD	Expenses incurred and paid by PMO (WAs not yet claimed)	% expenditures over the total loan amount	% expenditures over AWPB
IFAD loan	11 479 000.00	1 709 969		218 499	2%	13%
GEF grant	1 500 000.00	246 523		41 841	3%	17%
Government	899 000.00	68 392.30	0	17 000	2%	25%
Beneficiaries	168 000.00	-	0		0%	
Companies	1 663 000.00	-	0		0%	
Institutions	2 656 000	-	0		0%	
<b>Total</b>	<b>18 365 000.00</b>	<b>2 024 884.10</b>	<b>-</b>	<b>277 340</b>	<b>14%</b>	<b>14%</b>
* excluding advance payments in the amount of USD1.5 million for the loan and USD0.25 million slow implementation the plan was giving the lending				260 339.61		



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Table 3B: Financial performance by financier by component (USD'000) as at 31/08/2012

Component	IFAD loan			GEF Grant			Government			Beneficiaries, Companies and Institutions			Total		
	Approval	Actual Expenses	%	Approval	Actual Expenses	%	Approval	Actual Expenses	%	Approval	Actual Expenses	%	Approval	Actual Expenses	%
A. Market Development	5 256 000.00		-				207 000			4 488 000	-		9 951 000.00	-	-
B. Pasture Management, Climate	4 956 000.00	173 909.04	3.51	1 500 000	41 840.74	2.79	602 000				-		7 058 000.00	215 749.78	3.06
C. Project Management	1 267 000.00	44 589.83	3.52				89 000	17 000			-		1 356 000.00	61 589.83	4.54
<b>Total</b>	<b>11 479 000.00</b>	<b>218 498.87</b>	<b>1.90</b>	<b>1 500 000.00</b>	<b>41 840.74</b>	<b>2.79</b>	<b>898 000</b>	<b>17 000</b>		<b>4 488 000</b>		<b>%</b>	<b>18 365 000.00</b>	<b>277 339.61</b>	<b>1.51</b>

USD=1.350₮

Table 3B: Financial performance by financier by component (USD) as at 31/08/2012

Component	IFAD loan			GF Grand			Government			Beneficiaries, Companies and Institutions			Total		
	Approval AWPB	Actual	%	Approval AWPB	Actual	%	Approve AWPB	Actual	%	Approval AWPB	Actual	%	Approval AWPB	Actual	%
A. Market Development	833 767.20		-				1 925				-		835 692.20	-	-
B. Pasture Management, Climate Change	520 735.80	173 909.04	33%	246 523.20	41 840.74	17%	49 445				-		816 704.00	215 749.78	26%
C. Project Management	355 465.60	44 589.83	13%				17 022	17 000.00	100%		-		372 487.90	61 589.83	17%
<b>Total</b>	<b>1 709 968.60</b>	<b>218 498.87</b>	<b>13%</b>	<b>246 523.20</b>	<b>41 840.74</b>	<b>16.97</b>	<b>68 392</b>	<b>17 000.00</b>	<b>25%</b>			<b>%</b>	<b>2 024 884.10</b>	<b>277 339.61</b>	<b>14%</b>

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**Table 3C.A: IFAD loan disbursements (USD, as at 31/12/2011)**

Category	Category description	Original allocation (USD)	Planned of 2012	Disbursement	W/A pending	Balance	% Expenses/loan amount	% Expenses /AWPB
I	CML WORKS	506 560.00	40 000.00			506 560.00		0%
II	VEHICLES, EQUIPMENT	269 110.00	163 459.26		89 485.93	179 624.07	55%	55%
III A	INPUTS - TOOLS, MATERIALS	1 630 490.00	416 296.30		38 888.89	1 591 601.11	9%	9%
III B	INPUTS - ECONOMIC DEVELOPMENT COSTS	1 899 600.00	145 692.22			1 899 600.00	0%	0%
IV	GROUP FORMATION & PROJECT GRANTS	1 234 740.00	158 872.15		28 534.22	1 206 205.78	18%	18%
V	LOAN GUARANTEES	3 055 190.00	592 592.59			3 055 190.00	0%	0%
VI	FIELD & MANAGEMENT STAFF, OPERATING COSTS & MAINTENANCE	1 741 300.00	169 852.78		61 589.83	1 679 710.17	36%	36%
	UNALLOCATED	1 142 010.00				1 142 010.00		
	<b>Sub total</b>	<b>11 479 000.00</b>	<b>1 686 765.30</b>	<b>-</b>	<b>218 498.87</b>	<b>11 260 501.13</b>	<b>2%</b>	<b>13%</b>
	Initial deposit			1 500 000				
	<b>Total</b>	<b>11 479 000.00</b>		<b>1 500 000</b>			<b>13%</b>	
	SDR=1.583\$							
	1 USD=1350₮							

**Table 3C.A: GEF Grant disbursements (USD, as at 31/8/2012)**

Category	Category description	Original allocation	Planned of 2012	Disbursement	W/A pending	Grant Balance	Pending WA+Disbursement/ grant allocation	Pending WA+Disbursement/AWPB
II	VEHICLES, EQUIPMENT	60 000.00	60 000.00			60 000.00	0%	0%
III A	INPUTS - TOOLS, MATERIALS	340 000.00	162 222.22		21 100.00	318 900.00	6%	13%
III B	INPUTS - ECONOMIC DEVELOPMENT COSTS	930 000.00	84 301.00		20 740.74	909 259.26	2%	25%
VI	FIELD & MANAGEMENT STAFF, OPERATING COSTS AND MAINTENANCE,	22 000.00	31 595.56			22 000.00	0%	0%
	UNALLOCATED	148 000.00				148 000.00	0%	
	<b>Sub Total</b>	<b>1 500 000.00</b>	<b>338 118.78</b>	<b>-</b>	<b>41 840.74</b>	<b>1 458 159</b>	<b>3%</b>	<b>12%</b>
	Initial deposit			250 000.00				
	<b>Total</b>	<b>1 500 000.00</b>		<b>250 000.00</b>			<b>17%</b>	

**Appendix 4 Compliance with Financing Agreement Covenants: Status of Implementation**

Section	Covenant	Target/Action Due Date	Compliance Status/Date	Remarks
Section B.6 Financing Agreement	There shall be a designated account in a bank acceptable to the Fund denominated in USD for the purpose of receiving funds in advance from the IFAD Loan.	By the end of 2011	In December 2011, designated account was opened with Ulaanbaatar bank by MOF	Complied
Section B.7 Financing Agreement	There shall be a designated account in a bank acceptable to the Fund denominated in USD for the purpose of receiving funds in advance from the GEF Grant.	By the end of 2011	In December 2011, designated account was opened with Ulaanbaatar bank by MOF	Complied
Section B.8 Financing Agreement	There shall be 2 Project Accounts opened by the implementing agencies in local currency for Project operations, in commercial banks satisfactory to IFAD. One will receive resources from the GEF designated account; the other will receive resources from the IFAD designated account.	By the end of 2011	In December 2011, 2 designated accounts were opened with Ulaanbaatar bank by PMU as advised by MOF	Complied
Section B.9 Financing Agreement	The Borrower/Recipient shall exempt all duties and taxes associated with the Project.	First quarter of 2012	In March 2012, Minister of finance issued the order of exempting all duties and taxes under the project	Not Complied
Section E.1(a) Financing Agreement	The Project key staff such as project manager, project accountant and procurement officer shall have been duly appointed in accordance with this Agreement and shall have taken office.	By the end of 2011	Project director and accountant were duly selected and appointed in November 2011; procurement officer was selected and appointed in April.	Complied
Section E.1(b) Financing Agreement	The Project Steering Committee (PSC) shall have been established.	By the end of 2011	The PSC was established by the order of the State Secretary of MOFALI in December 2011. 7 members, representing MOFALI, MOF, Mongol Bank, NDIC, MONE were included into the PSC.	Complied
Para. 6, Schedule 1 Financing Agreement	The PSC will meet at least twice per year.		In 2011, PSC have met informally twice to discuss the AWPB for 2011	Complied
Para. 8, Schedule 1 Financing Agreement	Annual Work Plan and Budget. Separate AWPB will be prepared for IFAD and for GEF expenditures. AWPBs should be reviewed and approved by the PSC.	1 <sup>st</sup> quarter 2011	AWPB were discussed by PSC and reviewed and concurred by IFAD and then approved by the PSC	Complied
Section E.2 Financing Agreement	The Loan Guarantee Fund Board has been established and the Loan Guarantee Operational Manual has been approved by IFAD.		It has not been done yet, due to the approval of the law on guarantee	Not Complied

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Section	Covenant	Target/Action Due Date	Compliance Status/Date	Remarks
Section E.3 Financing Agreement	This Agreement is subject to ratification by the Borrower/Recipient.		Instrument of Ratification was received on 26 August 2011	Complied
Para. 1, Schedule 1 Financing Agreement	The project target group will include women and men from herder households and from Soum and Aimag centre households; and female headed households and households classified by the local government as poor and vulnerable in the lists at Bagh and Soum level, in the Aimags of Huskhul, Arhangai, Bulgan, Henti and Gobi-Altai (the "Project area").		Members of Pasture herder groups are all from herding households. Under the Self- help group formation, 85% of members are women.	Complied
Para. 4.1.1 Schedule 1 Financing Agreement	Value chain development. The project approach in a given value chain will be to identify demand first and then link it to herders' cooperatives and producer groups, selling quality output on the basis of a medium-long term commercial agreement. Main activities will include the following: selection of value chains and/or commodities which can be produced profitably and in a sustainable manner, identification of private and/or public enterprise, herders' cooperatives and producer groups for the development of the priority value chains, establishment with project support, of a draft business plan by the selected companies including an investment plan, consultation with potential producers on the basis of the draft business and investment plan, review of the proposed production, quality and marketing modalities as well as the premium pricing mechanism, finalisation of the business and investment plans. In order to enable poor herders to benefit from and participate in value chain, the project will support the establishment of voluntary micro-finance Self Help Groups (SHGs) and develop SHGs as a cooperative. Joint liability Self Help Groups, will be eligible for group loans for micro-enterprise development. Loans will be disbursed by selected PFIs from their own resources under an agreement with the microfinance development Fund (MDF). The component will where relevant support the implementation of the Mongolian Government's "Mongol Livestock" and "Cooperative Development" programmes and its measures, undertaken to develop agricultural commodity exchange in context of their general goals		Bidding to select service provider for value chain development was announced, but whole bid was cancelled due to the lack of experience of bidders. Service provider for Women's Self Help Group was selected through open bidding and 110 groups were established.	Not Complied  Complied
Para. 4.1.2 Schedule 1 Financing Agreement	Small enterprise development. The Project will determine the feasibility of establishing local small scale processing units at the level of two or three Soums. Investments may include e.g. vegetables processing, milk collection, powder milk production, slaughter house and meat processing, or		No progress so far	

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Section	Covenant	Target/Action Due Date	Compliance Status/Date	Remarks
	<p>any other such activity. Investment in economic diversification such as in services and tourism inter alia, may also be considered. Investments will be undertaken jointly by producer groups and private buying companies.</p> <p>Loan guarantees. The loan financing for the above activities will be provided by Participating Financial Institutions (PFIs) using their own resources. The project will guarantee those loans at levels varying from 50% to 80% of their value. To support its guarantees, the Project will establish a Loan Guarantee Fund. The Operation of the Loan Guarantee Fund will be overseen by a Loan Guarantee Fund Board, which will be composed of members of the already established Micro-Finance Board, but also of representatives of MOIA and the PMU. A Loan Guarantee Operational Manual will be prepared by the project and approved by IFAD prior to disbursements under this component. Changes to the Loan Guarantee Operational Manual will only be made with IFAD's prior approval.</p>		No progress so far	
Para. 4.2.1 Schedule 1 Financing Agreement	Pasture management. The focus of the project would be on building sustainable community organizations that promote sustainable pasture use and equity through inclusive approaches and socially responsible practices. The project will support the participatory definition of geographic Pasture Units and their approval by the Soum administration, and the establishment, registration and training of about 135 Pasture Herder Groups (PHG). Existing PHGs, established under the previous projects will be prioritized for cooperation and support under this component. A three-year Pasture Management Plan and annual activity plans will be drawn up by each PHG in a participatory manner		As planned in AWPB 2012, 60 herder groups were established. (Progress report from service provider is attached )	Complied
Para. 4.2.2 Schedule 1 Financing Agreement	Climate change adaptation. This sub-component will be co-funded by the GEF Grant and will provide the resources for implementation of the pasture management plans of PHGs and of specific measures to increase the capacity and resilience of herders to cope with climate change impacts and manage pastoral risks. Specific investments identified in the pasture management plans will include collective activities such as: construction of new shallow wells for livestock watering (to extend access to grazing areas), fencing of hayfields for winter pasture conservation and fodder preparation, construction of winter shelters for livestock, and fencing of wetlands and water sources to protect from degradation by overgrazing and	Activities would only start in 2013		Not Complied

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Section	Covenant	Target/Action Due Date	Compliance Status/Date	Remarks
	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.			
Para. 4.3 Schedule 1 Financing Agreement	Project management and policy support. The project will be implemented under the responsibility of the Ministry of Food, Agriculture and Light Industries (MOIA). A Steering Committee, chaired by the Ministry of Finance will be established. A Project Management Unit (PMU) will be established, reporting to the State Secretary of MOIA. It will be staffed by a Project Manager, an Economist, a Socio-economic and gender specialist, an Accountant, a Monitoring and Evaluation officer, a Secretary and a Driver. The PMU will outsource the implementation to experienced and qualified service providers. Its main responsibilities thus will be in planning, supervision, financial management and monitoring. At the beginning of the project, consultant support will be mobilised to establish an appropriate Monitoring & Evaluation system	By the end of 2011	MOFALI is the implementing agency of the project. The PSC has been chaired by the MOF. Except coordinator for value chain development and secretary, all staff was recruited. PMU was established by the order of the State Secretary of MOFALI in November 2011. M&E system has been established	Complied - However some changes are envisaged to the Lead Implementing Agency and other implementing Agencies
Para. 6 Schedule 1 Financing Agreement	Project Steering Committee. The overall authority of the project will be vested in the Project Steering Committee (PSC). The Chair of the Committee will be held by a representative of the Ministry of Finance, members will include representatives of the MOFALI, the National Development and Innovation Committee, the Bank of Mongolia, and the Ministry of Nature, Environment and Tourism, and representatives of NGOs (the latter as observer). The Project Manager will acts as the Secretary of the PSC. The PSC will meet at least twice per year. The Steering Committee will review and approve the project's AWPB. It will review and approve the Annual report and the annual Financial Statements before auditing. It will review and approve the Implementation Agreements with the respective service providers prior to obtaining no-objections from IFAD, and will review and approve Value Chain business plans and investment plans as well as the small enterprise investment plans. It will provide policy advice on request of the Project Manager, any time a policy issue comes up during implementation. The PSC will not be involved in day-to-day executive matters		The Chair of the Committee has been held by a representative of the Ministry of Finance, members are representatives of the MOFALI, the National Development and Innovation Committee, the Bank of Mongolia, and the Ministry of Nature, Environment and Tourism, The Project Manager is the Secretary of the PSC. The PSC has met informally twice in 2011. The Steering Committee discussed and approved the project's AWPB for 2011.	Complied

**Appendix 5 Physical Progress Measured Against AWP&B and Appraisal Targets as of 31<sup>st</sup> August 2012**

Objectives/Expected Results	Implementation targets							
	Project Indicators	Appraisal (Total)	Revised (Total)	Planned (Annual)	Achieved (Cumulative)	%	Achieved (Annual)	%
<b>Component 1: Pasture Management</b>								
1.1. Effective pasture management organizations created and management plans formulated and approved	1.1.1. 135 Pasture Herder Groups (PHG) and pasture units supported and established and functional	135	135	60	60	52%	60	100%
	1.1.2. 50% of women in PHG decision making bodies	50%	50%	NT	15%	30%	15%	30.0%
	1.1.3. 135 pasture management plans prepared and approved	270	135	60	60	52%	60	100%
	1.1.4. 15 soum staff training	NT	15	15	15	100%	15	100%
1.2. Knowledge of herders and local government to adapt to climate change increase and improved enabling environment to reduce vulnerability of herders to the impacts of climate change	1.2.1. 80% of PHG members trained in improved pasture management practices	80%	80%	30%	20%	25%	20%	67%
	1.2.2. 135 PHG that climate change awareness raising activities completed	135	135	0	0	0	0	0
	1.2.3. 30 animal husbandry extension workers trained	60	30	0	0	0	0	0
	1.2.4. Vocational training for poor herders	NT	30	0	0	0	0	0
	1.2.5. 30 water well maintenance technicians trained.	0	30	0	0	0	0	0
	1.2.6. 8 potential climate change adaptation technologies demonstrated	0	8	0	0	0	0	0
1.3. Investments completed in activities identified in the Pasture Management Plans that will increase the resilience of herders to climate change impacts	1.3.1. 100 Solar power facility to poor hhs	1350	100	30	30	30%	30	100%
	1.3.2. 115 new well drilling and exploration	270	115	30	0	0	0	0
	1.3.3. 115 fences spring source protection	0	115	30	0	0	0	0
	1.3.4. Construction of winter shelter for livestock	1350	0	0	0	0	0	0
	1.3.5. Fencing 300 ha of hay making area	2025	300ha	150ha	0	0	0	0
	1.3.6. Office equipment for 15 soum facilitators of PMD	15	15	15	15	100%	15	100%
	1.3.7. 30 sprinklers provision	0	115	30	30	26%	30	100%
	1.3.8. 20 small tractor with hay making accessories	0	115	20	15	13%	15	75%

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Objectives/Expected Results	Implementation targets							
	Project Indicators	Appraisal (Total)	Revised (Total)	Planned (Annual)	Achieved (Cumulative)	%	Achieved	%
	1.3.9. Motorcycles for 15 soum facilitators of PMD	0	15	15	15	100%	15	100%
Component 2: Market development								
2.1. Value chain development: Members of herder groups, farmer groups and rural poor in soum and aimag centers participate in value chains and earn premium incomes through direct sales of quality produce to local and national buyers.	2.1.1. 60 value chain support	60	60	8	0	0	0	0
	2.1.2. 5500 Households involved in herder/farmer groups in value chain	0	NT	0	0	0	0	0
2.2. Small enterprise development: Pilot small enterprises have been established in association with private partners and producers groups and household income has improved by employment creation and value addition.	2.2.1. 500 households involved as suppliers to pilot small enterprises	0	500	0	0	0	0	0
	2.2.2. 5 pilot small enterprise established	5	5	0	0	0	0	0
	2.2.3. Producers supplying to enterprise gain access to premium markets	NT	NT	0	0	0	0	0
2.3. Micro-enterprises development: Joint liability groups, use micro-finance to diversify household economic activities.	2.3.1. 550 Self Help Groups established and functioning	550	550	100	110	20%	110	110%
	2.3.2. Amount of savings mobilized	NT	NT	NT	0	0	0	0
	2.3.3 Amount of inter-lending to members	NT	NT	NT	0	0	0	0
	2.3.4. Amount of bank loans	NT	NT	NT	0	0	0	0
	2.3.5. Repayment performance	NT	NT	NT	0	0	0	0
	Motorcycle for soum coordinator of MDC	NT	NT	0	0	0	0	0
2.4. Loan Guarantee scheme	2.4. 1. Amount of loan guarantees disbursed	NT	NT	NT	0	0	0	0
	2.4.2. Amount of actual risk funds called in	NT	NT	NT	0	0	0	0
	2.4.3. Repayment performance final borrowers and PFIs	NT	NT	NT	0	0	0	0
	2.4.4. Support and capacity building of cooperating institution	NT	NT	NT	0	0	0	0
Component 3: Program Management								



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Objectives/Expected Results	Implementation targets							
	Project Indicators	Appraisal (Total)	Revised (Total)	Planned (Annual)	Achieved (Cumulative)	%	Achieved (Annual)	%
	3.1.1. Vehicle procured	2	2	1	1	50%	1	100%
	3.2.1. Workshops conducted	NT	NT	4	0	0%	0	0%
	3.2.2. Studies on policies	NT	NT	0	0	0	0	0
	3.2.3 Study materials dissemination	NT	NT	0	0	0	0	0
	3.2.4. policy workshops undertaken, policy initiatives proposed	NT	NT	0	0	0	0	0

### Appendix 6 RIMS Table

#### First Level Results

Results	Unit	Period ending:	31-Dec		Cumulative			
		AWP&B	Actual	% of AWPB	Appraisal	Actual	% of Appraisal	
1.8.4 Communities receiving project services	Number	15	33	220%	15	33	220%	
1.8.3 Groups receiving project services	Number	160	170	106%	810	170	21%	
1.8.2 Households receiving project services	Number	1 920	2 306	120%	19 700	2 306	12%	
1.8.1 People receiving project services	Number	8 640	10 377	120%	88 650	10 377	12%	
	Male	4 320	428	103%	44 325	428	10%	
	Female	4 320	407	89%	44 325	407	9%	
<b>Sub Component Name</b>								
Value chain development	1.4.1 People trained in post-production, processing and marketing	Number	0	0	n/a	5 500	0	n/a
	1.5.4 People trained in business and entrepreneurship skills	Number	0	0	n/a	9 350	0	n/a
Small enterprise	1.5.5 Enterprises accessing financial services facilitated by the project	Number	0	0	n/a	5	0	n/a
	1.5.4 Enterprises accessing non-financial services facilitated by the project	Number	0	0	n/a	5	0	n/a
	1.2.5 People accessing advisory services facilitated by project	Number	0	0	n/a	2 500	0	n/a
Micro-enterprise development	1.3.12 People trained in financial services	Number	100	0	0%	5 500	0	n/a
	1.5.3 People trained in business and entrepreneurship skills	Number	100	0	0%	5 500	0	n/a
	1.6.2 People trained in community management topics	Number	255	657	258%	4 675	657	14%
		Female	45	73	162%	825	73	9%
	1.3.1 Saving and credit groups formed/strengthened	Number	100	110	110%	550	110	20%

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Results	Unit	Period ending:	31-Dec		Cumulative		
		AWP&B	Actual	% of AWPB	Appraisal	Actual	% of Appraisal
1.3.2 ed People in saving and credit groups formed/strengthened	Female	850	612	72%	2 338	612	26%
	Male	150	19	13%	413	19	5%
1.3.3 Saving and credit groups with women in leadership position	Number	85	107	126%	468	107	23%
Loan guarantee 1.3.4 Financial institutions participating in the project	Number	1	0	0%	1	0	0%
1.3.5 Staff of financial institutions trained	Number	0	0	n/a	2	0	0%
1.3.8 Active borrowers (disaggregated by gender)	Female	0	0	n/a	-	0	n/a
	Male	0	0	n/a	-	0	n/a
1.3.7 Value of voluntary savings	USD	0	0	n/a	-	0	n/a
1.3.6 Voluntary savers	Female	0	0	n/a	5 500	0	0%
	Male	0	0	n/a	-	0	n/a
1.3.10 Value of gross loan portfolio	USD	0	0	n/a	-	0	n/a
1.3.9 Active borrowers (enterprises)	Number	0	0	n/a	5	0	0%
1.3.11 Value of the gross loan portfolio (enterprises)	USD	0	0	n/a	-	0	n/a
Pasture management 1.1.10 Natural resources management groups formed/strengthened	Number	60	60	100%	135	60	44%
1.1.11 People in natural resources management groups formed/strengthened	Number	2 400	7 632	318%	9 450	7 632	81%
	Female	1 200	3 816	318%	4 725	3 816	81%
	Male	1 200	3 816	318%	4 725	3 816	81%
1.1.12 Natural resources management groups with women in leadership position	Number	12	9	75%	-	9	n/a
1.1.1 People trained in	Number	300	339	113%	6 440	339	5%

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	Results	Unit	Period ending:	31-Dec		Cumulative		
			AWP&B	Actual	% of AWPB	Appraisal	Actual	% of Appraisal
9	natural resources management	Female	150	112	75%	3 220	112	3%
		Male	150	227	151%	3 220	227	7%
1.5.3	People trained in business and entrepreneurship skills	Number	100	93	93%	-	93	n/a
		Female	50	38	76%	-	38	n/a
		Male	50	55	110%	-	55	n/a
1.1.13	Environmental management plans formulated	Number	60	60	100%	135	60	44%
1.1.14	Land under improved management practices	Ha	-	0	n/a	-	0	n/a
	Staff of service providers trained	Number	15	15	100%	15	15	100%
		Female	-	3	n/a	-	3	n/a
		Male	-	12	n/a	-	12	n/a
1.2.1	Staff of service providers trained	Number	0	0	-	30	0	n/a
		Female	0	0	-	15	0	0%
		Male	0	0	-	15	0	0%
1.1.5	Land under irrigation schemes constructed/rehabilitated	Ha	15	15	100%	-	15	n/a
1.1.6	Livestock water points constructed/rehabilitated	Number	30	0	0%	115	0	0%
1.1.1	People trained in infrastructure management	Number	0	0	-	30	0	-

Second Level Results

Sub-component	Result #	Results	Rating
<b>MARKET ACCESS</b>			
Value Chain Development	2.4.1	Effectiveness: producers benefiting from improved access to markets	NA.
		- Number of farmers with increased sales	NA.
Value Chain Development	2.4.4	Likelihood of sustainability of the marketing groups formed/strengthened	NA.
		- Number of groups operational/functional	NA.
VC & SME	2.4.3	Likelihood of sustainability of processing facilities	NA.
		- Number of functioning market, storage, processing facilities	NA.
SME	2.5.1	Likelihood of sustainability of enterprises	NA.
		- Number of enterprises operating after 3 years	NA.
Micro-enterprises	2.3.1	Likelihood of sustainability of saving and credit groups formed/strengthened	NA.
		- Number of groups operational/functional	NA.
LG and credit	2.3.2	Effectiveness: improved access of the poor to financial services	NA.
		- Number of first-time borrowers from banks	NA.
		- Number of SHG loans	NA.
		- Number of first-time borrowers successfully securing second loan	NA.
<b>PASTURE DEVELOPMENT</b>			
Pasture management	2.6.2	Effectiveness: community development	NA.
		- Number of pasture management plans included in local government plans	NA.
		- Number of pasture management plans implemented	NA.
CCA	2.1.2	Effectiveness of productive infrastructure - Livestock water points	NA.
		- Number of farmers with secured access to water	NA.
CCA	2.1.2	Effectiveness of productive infrastructure - Other	NA.
		- Number of farmers using sheep dipping facilities	NA.
CCA	2.1.2	Likelihood of sustainability of productive infrastructure - Rainwater harvesting systems	NA.
		- Volume of water harvested	NA.
Pasture management	2.1.4	Likelihood of sustainability of natural resources management groups formed/strengthened	NA.
		- Number of groups operational/functional	NA.
	2.1.5	Effectiveness of natural resources management and conservation programmes	NA.
		- Hectares of land improved through application of pasture management plans	NA.
CCA	2.7.1	Effectiveness of social infrastructure - Other	NA.
		- Number of households served by deep or shallow wells	NA.
CCA	2.7.2	Likelihood of sustainability of social infrastructure - Other	NA.
		- Number of groups functioning deep or shallow wells	NA.

Outreach

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<u>Parameters:</u>	Unit	Amount
Average household size:	persons	4.5
Target number for value chains groups supported:	groups	120
Target number for SMEs pilots	enterprises	5
Target number for SHGS supported	groups	550
Target number for PHGs	groups	135
TARGET TOTAL GROUPS RECEIVING SERVICES	groups	810
<u>Assumptions</u>		
Value chain group size (average):	households	50
Jobs created by SME (average):	households	50
Local suppliers per SME (average):	households	500
SHG membership (average):	households	10
PHGs membership (average):	households	70
Overlap VCG/SHG:	% of VCG	30%
Overlap PMG/VCG	% of PHG	10%
<u>Outreach estimates:</u>		
Value chain:	households	5500
SME Suppliers:	households	2500
SME employees:	households	250
SHG members:	households	5500
PHG members:	households	9450
Overlap VCG/SHG:	households	1650
Overlap PMG/VCG	households	945
TARGETED TOTAL OUTREACH - Households	households	20605
TARGETED TOTAL OUTREACH - direct & indirect beneficiaries	persons	92723

## Appendix 7 Learning and Innovation

**Learning: What has worked particularly well in this project during this period? What have been the reasons for this?**

The execution of contracts by service providers, and the absence of Aimag implementation officers as in the case of the previous IFAD-funded project, has led to an iterative process of work programme implementation. While this has been a challenge, the flexibility inherent in the participatory, demand-driven methods adopted by the project have permitted a more responsive approach to the needs of interests of the target group.

Among the changes have been the selection criteria of herder groups based on need, interest and commitment. For the selection of herder groups, the criteria defined by PMU and MOIA (i.e. clear boundaries, existing pasture use and activity plan, at least 3 years of experience, at least 10 member households) were found by the service provider to be not applicable in all cases. Most groups did not have defined boundaries. Rather, they operate on the common understanding of herders and local governments about customary areas for seasonal pasture use of different households and groups. The service provider applied an approach of inclusive discussions involving not only group members but households from surrounding areas as well as Bagh and Soum officials.

This participatory process is a key step in establishing groups and defining their common pasture in a more formal way and provides the basis for investments for groups and an incentive for pasture improvement investments by herders themselves. About 25% of households are to be involved in project activities based on the current project design. Despite the efforts to jointly define the boundaries of selected groups, it remains a challenge for effective pasture management and sustainable groups if the entire pasture boundary area and all households/groups are not included under the project. An approach that covers all pasture land (or at least more area) in one Soum would be more effective for improving pasture management and could also be more efficient in terms of project management/service delivery by the NGO.

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**Learning: What has not worked so well? What have been the reasons?**

The reliance on various external service providers and credit sources has been challenging. This is manifested for example in the difficulty in identifying a qualified partner for the Value Chain Development sub-component; and operationalizing financial services to the target group through bank or fund credits leveraged through the loan guarantee fund. To a degree a result of their innovativeness, both subcomponents have therefore required some adjustments in the original implementing arrangements and will require substantial support and follow-up.

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**Innovation: Describe any interesting innovation noted during supervision**

Through its innovative approach, PMPMD has a significant potential to contribute to knowledge management at the national level. By adopting inclusive, territorial methods applied to all users of selected pastures, PMPMD's approach to pasture management is a departure from previous approaches, which emphasised working with herder groups on livelihood improvement and livestock productivity. Considering the extensive degradation of pastures even beyond the selected soums, this component has a significant potential to generate lessons on herders' institutions for the use and management of common pasture land, and on how to link them to production and marketing mechanisms. The project should develop regular mechanisms for experience sharing and identifying lessons learnt, among participating groups and Soums, and for presenting these lessons to policy makers. Similarly, the loan guarantee scheme will be the first application of Mongolia's Law on Guarantee Fund since the passing of this Law on 10<sup>th</sup> February 2012. The value chain subcomponent also has good potential to generate useful lessons; however given the complexity of mobilising various partners around the value chain and the limited institutional capacities in this area, overall execution will be challenging and is likely to produce lessons and best practices only gradually.

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**Innovation: How might this be replicated by others, or up scaled here?**

In support of M&E, groups should be encouraged to establish their own indicators (social, environmental and livelihood) as a tool for planning, implementation and assessment of their own activities. Linked to the project M&E system, this can provide a basis for project evaluations, learning and adjustment of strategies. As the project progresses and generates lessons and results, it will be important to establish regular mechanisms for sharing knowledge with Government agencies and with other developmental projects.

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### Appendix 8 Updated Logframe

	Narrative Summary	Verifiable Indicators	Means Of Verification	Assumptions/ Risks
Goal	Empower poor rural women and men to achieve higher incomes and sustainable improvements in their livelihoods.	National poverty incidence.	National poverty statistics.	·Political stability.
				·Major shocks or crises do not weaken project effects.
	Reduce poverty and improve livelihoods of poor herder and soum and aimag center households in the project area.	·Improvements in household assets ownership index	- Baseline and completion impact (including RIMS).	- Political stability.
		·Reduction in prevalence of child malnutrition;		- Major shocks or crises which could weaken project effects do not occur; or are sufficiently mitigated.
		·Improvements in household income;	- UNICEF and UNDP child nutrition and poverty assessments.	
1	Pro-poor value chain strengthening in Soum and Aimag centres			
1.1.1	5 500 producers are organised in around 120 groups and able to ensure a higher value of sales.	· 120 groups formed and HHs participating; · 30% increase in producer HHs sales and net revenue.	NGO and group records.	Bank liquidity sufficient to provide credit to IFAD target group if loan risk mitigated.
1.1.2	5 500 producers establish sustainable commercial linkages with regular buyers in local and national markets.	· 4500 (80%) HHs signing formal, medium-term contracts; · At least 80% of biz plan financing requirements met (grants + bank credits/GF secured); · Terms of sales contracts fulfilled (sales orders fulfilled, payments made by purchasers on time).	· Producer Group records; · Business plan and SME balance sheet; · Producer group and value chain partners accounts.	Sufficient production and market demand to form 120 groups.
1.1.3	500 HHs enter into 5 commercial, collective arrangements that share risk and profit with private sector partners.	· Risk- and profit-sharing mechanisms designed and agreed with 500 HHs; · 5 SMEs registered and operating in accordance with MoU; · Income statements show profits by Y2; Profit distribution equitable.	· MoU between PGs, PMU and private sector; · SME registration records and income statements; · SME earnings and dividend records.	Local market continues to value herder products even in face of cheaper food import prices.
1.2.1	5 500 women have knowledge and skills needed for generating savings and accessing credit from own resources or externally.	# of WGs formed & # of members; · % of WGs meeting savings targets; · % of mobilised savings on-lent to members; · # of bank loans issued to WGs.	· NGO and group records; · Bank and LGF records.	
1.2.2	Poor herder HHs are able to access formal financial services.	# of applicants who secure loans for the first time.	Producer and Women Group records.	
2	Improved pasture management and resilience to climate change			
2.1	9 450 Herder households collaborate effectively in joint management of pastures, executing 135 PMPs.	· Number of PMPs issued; · 95% of PHG member HHs moving on time in relation to PMP spring/summer pasture rotation targets. · Number of violations of PMP. · Improvement in pasture health.	· Soum admin records. · NGO & PHG records. · Remote-sensing and GIS. · Soum Meteorological Pasture Monitoring + NGO soum	Adoption of the pasture law.  Continued (local) government support for the implementation of the Land Law.  No major



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			coordinator spot checks.	violations of reserve areas by non-member herders.
2.2	9 450 Herder households are better able to cope with climate variability and extreme events.	<ul style="list-style-type: none"> <li>. Livestock mortality &amp; livestock diseases.</li> <li>. Milk and meat yields.</li> <li>. % of PHGs that increase hay-making and fodder production to the original group target level.</li> </ul>	<ul style="list-style-type: none"> <li>. PHG annual reports;</li> <li>. Focus group discussions;</li> <li>. Soum and Baig administrative records.</li> </ul>	
2.3	Herder Group's PMPs are integrated, and actively enforced by local government (policies, regulations, budget).	<ul style="list-style-type: none"> <li>. At least 3 Aimag and 12 soum allocate budgets for direct support to PMPs;</li> <li>. Number of user-rights contracts between Soum governments and PHGs.</li> </ul>	Local government expenditure records and PHG records; NGO records.	

**Appendix 9 Audit Log**

Not applicable as the first audit will be due by 30<sup>th</sup> June 2013.

**Appendix 10 Supervision Mission Schedule and Persons Met**

Date	Activity
Schedule for Thierry F. Mahieux	
09 September 2012 (Sun)	AM: Arrival at UB
10 September 2012 (Mon)	08.30: Meeting with D.Dalantainyam, PMU
	10.00: Meeting with Dorjhand, head of Development Financing and Cooperation Department, Ministry of Finance
	15.30: Meeting with S. Enhtuya, President of Union of Mongolian Production and service cooperatives. (Service provider of Micro enterprise development component )
11 September 2012 (Tue)	09.30: Meeting with Demberel, Head of SME Development Fund, Ministry of Industry and Agriculture. (99094136, 99893010)
	11.00: Meeting with Chimeddagva, JICA –financed Development Fund (99116661)
	15. 00: Oyunchimeg (88040036) Loan Regulatory Department, Savings bank
12 September 2012 (Wed)	09.00: Meeting with Ministry of Labor (262787, /319803)
	10.00: Choi-Ish, head of Strategic planning department, Ministry of Industry and Agriculture
	11.30: Meeting with Erdenechimeg senior project officer, KHAN bank (99055607) (332333-3279 Haliunaa)
13 September 2012 (Thu)	Meeting with UNDP (Guarantee scheme)
	10.00: Meeting with Baigalmaa, GIZ project
14 September 2012 (Fri)	10.00: Meeting with Ehnjargal, XAC bank
	14.00: CHF
15-16 September 2012 (Weekend)	Work at hotel
17 September 2012 (Mon)	Dorjkhand, Ministry Finance (delayed)
18-20 September 2012 (Tue-Thu)	Field work in Bulgan aimag
21 September 2012 (Fri)	Follow up meetings with required agencies in UB
22-26 September 2012 (Sat-Wed)	Finalizing loan guarantee operational procedures, the draft MOU among MOF, MOIA, and MOL and loan amendment proposal
	Preparing contribution to the draft Aide Memoire
	Work with the rest of the mission from 24 September 2012
24 September 2012	15.00: Meeting with Gantsogt, head of Procurement Department Ministry of Finance (together with other mission members)
25 September 2012	09.00: Meeting with Zoljargal State Secretary of Ministry of Industry and Agriculture and T. Erdenejargal, External Cooperation Department, (together with other mission members)
26-28 September 2012 (Thu)	Preparation of draft aide memoire.
28 September 2012 (Sat)	Departure
Schedule for Sabine Schmidt	
18 September 2012 (Tue)	14.00: Meeting with Dorligsuren, Mongolian Society for Range Management officer (99113927)
	16.00: Meeting with Enh-Amgalan, manager, Green Gold project ( 99182038)
19 September 2012 (Wed)	10.00: Meeting with Tsolmon, head of Otor Department, Ministry of Industry, Food and Agriculture. (99709456)
	14.00: Ulambayar, officer of Agency for Meteorology Hydrology and Environmental Monitoring (99837602) (room 309)
20 September 2012 (Thu)	09.00: Meeting with Batjargal, Manager of Desertification project, UNDP (99179141)
21-23 September 2012 (Thu-Sun)	Field work in Hentii
24 September 2012 (Mon)	14.00: Meeting with Altantsetseg, Millennium Challenge Account project (99272727) City center 2 <sup>nd</sup> floor
	15.00: Meeting with Ganibal, Head of Livestock Department, Ministry of Industry and Agriculture.
	16.00: Meeting with Binye, Livestock Department of Ministry of Industry and

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Date	Activity
	Agriculture and head of the project Technical Committee (99890109)
	Work with the other members of the mission
25 September 2012	09.00: Meeting with Zoljargal State Secretary of Ministry of Industry and Agriculture and T. Erdenejargal, External Cooperation Department, (together with other mission members)
25-27 September 2012 (Tue-Thu)	Preparing contribution to the draft Aide Memoire
05 October 2012 (Fri)	Attending the mission wrap up meeting
Schedule for Irene Li	
20 September 2012 (Thu)	23.35: Arrival at UB
21 September 2012 (Fri)	09.00: Meeting with PMU and Finance Officers
22-24 September 2012	Working with the PMU and Finance Officers on financial management and loan disbursement related issues in UB
24 September 2012	14.00: Meeting with Dorjhand, head of Development Financing and Cooperation Department, Ministry of Finance 15.00: Meeting with Gantsogt, head of Procurement Department Ministry of Finance / (together with other mission members) (260206)
25 September 2012 (Wed)	09.00: Meeting with Zoljargal State Secretary of Ministry of Industry and Agriculture and T. Erdenejargal, External Cooperation Department, (together with other mission members) 14.00: Meeting with Audit Office Preparing contribution to the draft Aide Memoire
26 September 2012 (Thu)	Preparing contribution to the draft Aide Memoire
27 September 2012 (Fri)	Departure
Schedule for other Mission members (Shankar Kutty, Tawfiq El-Zabri and Youqiong Wang)	
24 September 2012 (Mon)	AM: Mission members arrive in Ulan-Bator 14.00: Meeting with Dorjhand, head of Development Financing and Cooperation Department, Ministry of Finance 15.00: Meeting with Gantsogt, head of Procurement Department Ministry of Finance / (260206)
25 September 2012 (Tue)	08.30: Meeting with Zoljargal, State Secretary Ministry of Industry, Food and Agriculture and Erdenejargal, External Cooperation Department, Ministry of Industry and Agriculture (need to confirm) 10.30: Meeting with Dorligsuren, Mongolian Society for Range Management (MSRM) 14.00: Meeting with the PMU
26 September 2012 (Wed)	11.00: Meeting with Union of Mongolian Production and Service Cooperatives 15.30: Meeting with Ms. Altanjargal, head of Labor Generation Department and Mr. Bat-Amgalan, head of SME Policy Department, Ministry of Labor.
27-28 September 2012 (Wed-Fri)	14.00: Meeting with Saule, Head of Information and Monitoring Department of the Ministry of Industry, Food and Agriculture (Tawfiq El-Zabri) Work with the PMU staff on project management, M&E and procurement related issues / Training for Procurement officer by Shankar.
29 September – 1 October 2012 (Sat-Mon)	Field visit to selected project soums of Arhangai aimag
1 October 2012 (Mon)	Return to UB
02-04 October 2012 (Tue-Thu)	Follow up meeting with concerned agencies if required and preparing draft Aide Memoire
04 October 2012 (Thu)	Distribution of draft Aide Memoire
05 October 2012 (Fri)	Wrap-up meeting
06 October 2012 (Sat)	Mission departure from UB

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No	Name	Position
1	Mr. Dorjhand	Head of Development Financing and Cooperation Department, Ministry of Finance
2	Mr. H.Zoljargal	State Secretary of Ministry of Industry and Agriculture
3	Mr. Demberel,	Head of SME Development Fund, Ministry of Industry and Agriculture.
4	Mr.Chimeddagva,	JICA –Financed Development Fund)
5	Ms.Oyunchimeg	Loan Regulatory Department, Savings bank
6	Ms.Altanjargal	Labor Generation Department
7	Mr. Bat-Amgalan	Head of SME Department of Ministry of Labor
8	Ms.Erdenechimeg	Senior project officer, KHAN bank
9	Ms.Tsetsgee	UNDP, Guarantee scheme
10	Ms.Baigalmaa	GIZ project
11	Ms. Ehnjargal,	Project Loan Department, XAC bank
12		CHF
13	Mr.Gantsogt	Head of Procurement Department Ministry of Finance
14	Ms.T.Erdenejargal,	External Cooperation Department, Ministry of Industry and Agriculture
15	Ms.S.Enhtuya,	President of Union of Mongolian Production and service cooperatives.
16	Mr.D.Dorligsuren	Director of the Mongolian Society for Range Management
17	Ms.Ts.Enh-Amgalan,	Green Gold project, SDC
18	Mr.D.Tsolmon,	Head of Otor Department, Ministry of Industry and Agriculture.
19	Mr. Tseesod-Oroltsoo	Agency for Meteorology Hydrology and Environmental Monitoring
20	Mr.Ulambayar,	Agency for Meteorology Hydrology and Environmental Monitoring
21	Mr. B. Batjargal	Manager of Desertification project, UNDP
22	Ms.Altantsetseg,	Millennium Challenge Account project
23	Mr.Ganibal,	Head of Livestock Department, Ministry of Industry and Agriculture.
24	Ms.U.Saule	Head of Information and Monitoring Department of the Ministry of Industry and Agriculture
25	Ms. Altanjargal,	Head of Labor Generation Department, Ministry of Labor
26	Mr. Bat-Amgalan	Head of SME Policy Department, Ministry of Labor.
27	L.Monkhdemberel	IFAD Desk officer, Ministry of Finance
28	D.Dalantainyam	Director of PMU of PMPMD
29	J.Boldhuyag	Accountant of PMU of PMPMD
30	B.Oyuntuya	Procurement officer of PMU of PMPMD
31	S.Gun-Uyanga	M&E officer PMU of PMPMD
32	Ts.Altantsetseg	Coordinator for Market Development Component, M&E officer PMU of PMPMD
33	Bulgan aimag	
34	Mr. Monkhsaikhan	Deputy aimag Governor
35	Ms.Buyanjargal	Director of aimag Governor's Administration Office
36	Mr.Bumbayar	Head of Bulgan Branch of Union of Mongolian Production and Service Cooperatives
37	Mr. Buyandelger	Head of Social Policy Department
38	Mr.Enhbat	Director for the Bulgan aimag's Social Welfare and Labor Department
39	Ms.Darisuren	Aimag facilitator for women's group
40	Mr.Batdorj	Deputy Governor of Khangal soum
41	Ms.Byambasuren	Officer of Employment Generation Fund, Hangal soum
42	Ms.Tungalagtamir	Director of Governor's Administration Office, Hangal soum
43	Ms.Saingerel	Director of soum KHAN Bank branch, Khangal soum,
44	Altantuya	Director of soum Savings Bank branch, Khangal soum
45	Oyun	Soum Governor, Orkhon soum
46	Delgermaa	Director of branch Khanbank of Orkhon soum,
47	Badamjunai	Soum Governor, Bulgan soum
48	Gantungalag	Officer for the Social Welfare and Labor Department, Bulgan soum
49	Sarnaitsetseg	Head of women's group "Temuulel", Khangal soum
50	Baasan	Member of "Temuulel", Khangal soum
51	Dabaajab	Member of "Temuulel", Khangal soum
52	Ouyntuya	Member of "Temuulel", Khangal soum
53	Unurtsetseg	Member of "Temuulel", Khangal soum
54	Narangerel	Member of "Temuulel", Khangal soum
55	Nasanjargal	Head of women's group "Khos shaglaa", Khangal soum
56	Azjargal	Member of "Khos shaglaa", Khangal soum
57	Oyuntuya	Member of "Khos shaglaa", Khangal soum

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58	Unurjargal	Member of “Khos shaglaa” , Khangal soum
59	Tsetsegee	Member of “Khos shaglaa” , Khangal soum
60	Enkhtur	Member of “Khos shaglaa” , Khangal soum
61	Daariimaa	Head of women’s group “Uran gar” , Hyalgant soum
62	Tsetsegmaa	Member of “Uran gar” , Hyalgant soum
63	Mandakh	Member of “Uran gar” , Hyalgant soum
64	Oyun- erdene	Member of “Uran gar” , Hyalgant soum
65	Bolor -erdene	Member of “Uran gar” , Hyalgant soum
66	Enkhtuya	Member of “Uran gar” , Hyalgant soum
67	Erdenebat	Member of “Uran gar” , Hyalgant soum
68	Tserenpil	Member of “Uran gar” , Hyalgant soum
69	Tumurbaatar	Member of “Uran gar” , Hyalgant soum
70	Subd -erdene	Member of “Uran gar” , Hyalgant soum
71	Enkhtuya	Head of women’s group “Otgontenger” , Hyalgant soum
72	Lkhagbaa	Member of “Otgontenger” , Hyalgant soum
73	Erdenebat	Member of “Otgontenger” , Hyalgant soum
74	Uranchimeg	Member of “Otgontenger” , Hyalgant soum
75	Tuya	Member of “Otgontenger” , Hyalgant soum
76	Jargalan	Member of “Otgontenger” , Hyalgant soum
77	Tumenjargal	Member of “Otgontenger” , Hyalgant soum
78	Erdenetsatsral	Member of “Otgontenger” , Hyalgant soum
79	Saikhanjargal	Member of “Otgontenger” , Hyalgant soum
80	Erdenedalai	Member of “Otgontenger” , Hyalgant soum
81	Tsetsegmaa	Member of “Gar taban huruu” , Hyalgant soum
82	Ulziisaikhan	Member of “Gar taban huruu” , Hyalgant soum
83	Nasanjargal	Member of “Gar taban huruu” , Hyalgant soum
84	Tsetsemaa	Member of “Gar taban huruu” , Hyalgant soum
85	Erdenechimeg	Member of “Gar taban huruu” , Hyalgant soum
86	Saranjargal	Member of “Gar taban huruu” , Hyalgant soum
87	Khoroigarab	Member of “Gar taban huruu” , Hyalgant soum
88	Oyuntsetseg	Member of “Gar taban huruu” , Hyalgant soum
89	Dungarmaa	Member of “Gar taban huruu” , Hyalgant soum
90	Jargalsaikhan	Head of women’s group “Undral” , Hyalgant soum
91	Gantulga	Member of “Undral” Hyalgant soum
92	Chuluunpureb	Member of “Undral” Hyalgant soum
93	Enkhbaatar	Member of “Undral” Hyalgant soum
94	Jargaksaikhan	Member of “Undral” Hyalgant soum
95	Tserennadmid	Member of “Undral” Hyalgant soum
96	Khongorzul	Member of “Undral” Hyalgant soum
97	Baterdene	Member of “Undral” Hyalgant soum
98	Odgerel	Member of “Undral” Hyalgant soum
99	Gerelmaa	Member of “Undral” Hyalgant soum
100	Enkhtsatsral	Member of “Undral” Hyalgant soum
101	Myagmar	Head of women’s group “Orkhon od”Orkhon soum
102	Dabaa	Member of “Orkhon od”Orkhon soum
103	Dejid	Member of “Orkhon od”Orkhon soum
104	Ulziibayar	Member of “Orkhon od”Orkhon soum
105	Chuluunbaatar	Member of “Orkhon od”Orkhon soum
106	Gantulga	Member of “Orkhon od”Orkhon soum
107	Choimaa	Member of “Orkhon od”Orkhon soum
108	Tserendash	Member of “Orkhon od”Orkhon soum
109	Uranbileg	Member of “Orkhon od”Orkhon soum
110	Bayarbat	Member of “Orkhon od”Orkhon soum
111	Enkhtsetseg	Head of women’s group “Arbijikh”Orkhon soum
112	Khishigsuren	Member of “Arbijikh”Orkhon soum
113	Dooloi	Member of “Arbijikh”Orkhon soum
114	Batdelger	Member of “Arbijikh”Orkhon soum
115	Amarbayasgalan	Member of “Arbijikh”Orkhon soum
116	Tunsag	Member of “Arbijikh”Orkhon soum
117	Altantsetsaeg	Member of “Arbijikh”Orkhon soum
118	Baigalmaa	Head of women’s group “Bayarlakh” Orkhon soum
119	Altantsetseg	Member of “Bayarlakh”Orkhon soum

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120	Chantsalsuren	Member of "Bayarlakh" Orkhon soum
121	Tsetsegmaa	Member of "Bayarlakh" Orkhon soum
122	Otgontsetseg	Member of "Bayarlakh" Orkhon soum
123	Battsetseg	Member of "Bayarlakh" Orkhon soum
124	Baigalmaa	Member of "Bayarlakh" Orkhon soum
125	Arkhangai aimag	
126	Batkhuuyag	Arkhangai aimag Facilitator for women's group
127	Narantuya	Soum Governor, Olziit soum
128	Gungabaa	Arkhangai aimag Olziit soum facilitator for pasture management component
129	Rentsenkhand	Director of branch Khanbank , Olziit soum,
130	Jugdergarab	Land officer ,Olziit soum
131	Batsaikhan	Head of Veterinary and breeding unit, Olziit soum
132	Tungalag	Head Soum Representative Meeting, Olziit soum
133	Mr.Turkhuu	Head of Herder group "Bayan baishir", Olziit soum
134	Mr.Sandag	Member of Herder group "Bayan baishir", Olziit soum
135	Mr.Erdenee	Member of Herder group "Bayan baishir", Olziit soum
136	Mr.Ganhuyag	Member of Herder group "Bayan baishir", Olziit soum
137	Ms.Bayasgalan	Member of Herder group "Bayan baishir", Olziit soum
138	Mr.Namjiljab	Member of Herder group "Bayan baishir", Olziit soum
139	Ms.Purebsuren	Member of Herder group "Bayan baishir", Olziit soum
140	Mr.Altansukh	Member of Herder group "Bayan baishir", Olziit soum
141	Mr.Chuluunsukh	Head of Herder group "Takhilt", Olziit soum
142	Mr.Tubdenyam	Member of Herder group "Takhilt", Olziit soum
143	Mr.Gantumur	Member of Herder group "Takhilt", Olziit soum
144	Ms.Otgonkhagba	Member of Herder group "Takhilt", Olziit soum
145	Mr.Batsaikhan	Member of Herder group "Takhilt", Olziit soum
146	Mr.Turbat	Member of Herder group "Takhilt", Olziit soum
147	Dashzeveg	Member of Herder group "Takhilt", Olziit soum
148	Ms.Ichinhorloo	Head of "Tahilt" women's group, Olziit soum /with 6 members /
149	Ms.Erdenechimeg	Head of "Uran gar" women's group Olziit soum /with 4 members/
150	Ms.Anhtuya	Head of "Olziit" women's group Olziit soum /with 4 members/
151	Ms.Samballundev	Head of "Tavan-Erden" women's group Olziit soum /with 5 members/
152	Ms. Bolormaa	Head of "Erhes" women's group, Olziit soum /with 4 members/
153	Nyamdabaa	Soum governor, Ogiinuur soum
154	Batsuuri	Head Soum Representative Meeting, Ogiinuur soum
155	Uurtsaikh	Arkhangai aimag Ogiinuur soum facilitator for pasture management component
156	Nergui	Zoo technician of Ogiinuur soum
157	Mr.Purebsuren	Head of Herder group "Khuren khudag", Ogiinuur soum
158	Mr.Ganzorig	Member of herders group "Khuren khudag", Ogiinuur soum
159	Mr.Gantulga	Member of herders group "Khuren khudag" Ogiinuur soum
160	Ms.Altantsetseg	Member of herders group "Khuren khudag", Ogiinuur soum
161	Mr.Badamsed	Member of herders group "Khuren khudag" Ogiinuur soum
162	Mr.Sodnomdagba	Member of herders group "Khuren khudag", Ogiinuur soum
163	Ms.Lkhagbasuren	Member of herders group "Khuren khudag", Ogiinuur soum
164	Mr.Batsukh	Member of herders group "Khuren khudag", Ogiinuur soum
165	Mr.Soyolbaatar	Member of herders group "Khuren khudag", Ogiinuur soum
166	Mr.Sharabsanj	Member of herders group "Khuren khudag", Ogiinuur soum
167	Mr.Amgalanbaatar	Member of herders group "Khuren khudag", Ogiinuur soum
168	Ms.Myagmar	Member of herders group "Khuren khudag", Ogiinuur soum
169	Mr.Dorjsuren	Member of herders group "Khuren khudag", Ogiinuur soum
170	Mr.Ganbat	Head of Herder group "Khuubur", Ogiinuur soum
171	Ms.Norjinsuren	Member of herders group "Khuubur", Ogiinuur soum
172	Mr.Enkhamgalan	Member of herders group "Khuubur", Ogiinuur soum
173	Mr.Enkhtaiban	Member of herders group "Khuubur", Ogiinuur soum
174	Mr.Sanj	Member of herders group "Khuubur", Ogiinuur soum
175	Ms.Saruul	Member of herders group "Khuubur", Ogiinuur soum
176	Khurelchuluun	Member of herders group "Khuubur", Ogiinuur soum
177	Darkhanbaatar	Member of herders group "Khuubur", Ogiinuur soum

List of Attendants at the Wrap Up Meeting on 5<sup>th</sup> October 2012

Dorjkhand-Head of Development Financing and Cooperation Department, Ministry of Finance  
Munkhdemderel- Officer of Development Financing and Cooperation Department, Ministry of Finance  
Choi-Ish – Head of Strategy and Planning Department, Ministry of Industry, Food and Agriculture  
Enkbaatar-Officer, Ministry of Labour  
Amartugs- Head of Market for Labor Department, Ministry of Labour  
Dorligsuren-Mongolian Society for Range Management  
Enkhtuya-President of Union of Mongolian Production and service cooperatives  
Altantseteg –PMU  
Boldkhuyag-PMU  
Oyuntuya-PMU  
Solongo- Interpreter  
Youqiong Wang –IFAD  
Shankar Kutty –IFAD  
Tawfiq El-Zabri- IFAD  
Sabine Schmidt, IFAD Mission member



### **Appendix 11 Summary of Implementation Support Provided by IFAD**

1. Preparation of draft manual of operations for the Loan Guarantee Fund, draft MOA between MOF, MOIA and MOL in March/April 2012.
2. Preparation of proposed loan amendment for the Loan Guarantee Fund in March/April 2012.
3. IFAD handover mission (CPMs) to discuss project implementation related issues in May 2012.
4. RIMS training and preparation of questionnaires in October 2012.
5. Supervision mission from 24<sup>th</sup> September to 5<sup>th</sup> October 2012.

### **Annex 1 Loan Guarantee Fund**

- (i). Draft Manual of Procedures for the PMPMD Loan Guarantee Facility implemented through the MOF Unit and the PMU for both PMPMD and other beneficiaries.
- (ii). Draft Memorandum of Understanding between MOF in charge of the operations of the LGF, MOL in charge of the management of the SMEs Development Fund and the EGF and the MOIA as PMPMD Project Lead Agency for the coordination and operations of financing and guaranteeing activities.

## **The Manual of Procedures for the PMPMD Loan Guarantee Facility Implemented through the MOF Unit and the PMU for both PMPMD and Other Beneficiaries**

### **Introduction**

1. The IFAD-funded Project for Market and Pasture Management Development (PMPMD), the inception workshop of which has been carried out in November 2011, includes in its first component the implementation of a Credit Guarantee Facility.
2. The modus operandi of the PMPMD Guarantee Facility as well as its related procedures are detailed in the present document. The outline of the PMPMD Guarantee Facility is as follows:
  - Loans are extended by commercial banks from resources provided by either governmental funds (SMEs Development Fund, Employment Generation Fund) or by projects (Two-Step Loan project, ADB Project). Interest rate charged by commercial banks ranges from 7 to 10.5% per year;
  - The PMPMD Guarantee Facility extends portfolio guarantees to commercial banks when lending to PMPMD-supported groups (women's, producers or herders' groups) and extends individual guarantees to commercial banks when lending to PMPMD-supported SMEs. The PMPMD Guarantee Facility coverage ranges from 50% to 80% of the risk;
  - The PMPMD Guarantee Facility is firstly implemented by the Ministry of Finance as a separate unit of the PMPMD Project Management Unit. Once an appropriate Loan Guarantee Fund is established, licensed and operational, the activity of the Unit will be transferred to that Loan Guarantee Fund while all previously extended guarantees will be endorsed by the Loan Guarantee Fund.
3. In addition to the PMPMD target beneficiaries in PMPMD-selected Soums of the following five Aimags (Arkhangay, Bulgan, Gobi-Altai, Hentii, and Huvsgul), the PMPMD Guarantee Facility will also be accessible to similar target beneficiaries (i.e. women's groups, producers and herders' groups and SMEs) in non-PMPMD-selected Soums.
4. This Manual of Procedures details the procedures for the Unit to be implemented by the MoF as part of the PMPMD PMU. Procedures related to the Loan Guarantee Fund that will take over the activity of the Unit once licensed and operational will be detailed in another Manual of Procedures that will be drafted in due time together with other contributors to that Loan Guarantee Fund. It is however expected that most of the procedures described in this Manual, since based on best practices, will also be used under the Loan Guarantee Fund.

The following notes detail the modus operandi of the PMPMG Guarantee Facility:

- Note 1: Institutional set-up;  
Annex 1: ToR of the PMPMD Guarantee Facility Manager (and assistant)  
Annex 2: ToR of Governing Bodies
- Note 2: Loan beneficiaries and selection of commercial banks  
Annex 1: ToR for the assessment of commercial banks
- Note 3: Guarantee activity;  
Annex 1: Guarantee Contract  
Annex 2: Example of pay-outs
- Note 4: Reporting;
- Note 5: Management of Financial Resources
- Note 6: Accounting, Performance Indicators and Monitoring and evaluation
- Note 7: Lending activity
- Note 8: Roadmap for the 1<sup>st</sup> year
- Note 9: Financial projections

## NOTE 1: INSTITUTIONAL SET-UP

### Loan Guarantee Fund LLC

1. Since August 2010, Temporary Regulations to implement Loan Guarantee Facilities and to issue guarantees have been issued by the Financial Regulatory Commission (supervisory body for all non-bank financial institutions). Basically, an institution willing to provide loan guarantees has to be registered as a non-bank financial institution with a minimum share capital of MNT 3 billion and provided with a special license or permit from the Financial Regulatory Commission. It is a market and profit-oriented company which may distribute dividends to its shareholders. However, other entities might also extend guarantees partially covering the risk associated with commercial bank loans.

2. Following these regulations as well as those regulating Non-bank Financial Institutions, several institutions and donors decided to set up a specific loan guarantee company: the Loan Guarantee Fund limited liability company (LGF LLC) the share capital of which is MNT 3 billion and the shareholders (contributors) of which include: 9 commercial banks and their professional association, GIZ, Mercy Corps, the World Bank through the Microfinance Development Fund, the Chamber of Trade and Commerce, and the SMEs Development Fund.

3. However, as of October 2012, the LGF LLC is not yet licensed by the Financial Regulatory Commission as its share capital is not entirely subscribed. Unless the LGF LLC share capital is fully paid in, the company will not be licensed and operational.

### New Law on Guarantee Funds

4. A Law on Guarantee Funds has been adopted by the Mongolian Parliament in March 2012. The main aspects of this Law includes:

- Art. 4: Guarantee funds are non-for-profit legal entities.
- Art. 6: Government, business entities, NGOs and international organizations can become founding members of Guarantee Funds.
- Art. 7: Governance is ensured through Governing Board, Supervisory Board, CEO and Credit Guarantee Committee.
- Art. 9: Maximum guarantee coverage by the Guarantee Fund is 60% of credit extended by banks and financial institutions to small and medium businesses lacking of collateral. Guarantees are extended by the Guarantee Fund based on decision taken by banks and financial institutions. Guarantee Funds share capital is deposited on a bank account.
- Art. 13: Counter-guarantee extended by the Small and Medium Businesses Development Fund up to 60% of the exposure of the Guarantee Fund.
- Art. 13-3: 10% of the Guarantee Fund resources shall be allocated for pay-outs.
- Art. 14: Maximum leverage of the Guarantee Fund on banks and financial institutions portfolio is 20 times.
- Art. 16: Guarantee Funds are supervised by the Financial Regulatory Commission.

5. The Law still requires the Financial Regulatory Commission to issue regulations for the implementation and management of Guarantee Funds such as: minimum share capital, number of members in each Board and in the Credit Guarantee Committee. Guarantee Funds can effectively start operations once the regulations are published.

6. Reminder of the PMPMD operations. The project will provide SMEs and Self-Help Groups with: a/ a more accessible access to loan resources from commercial banks through the extension of a guarantee to commercial banks lending to PMPMD beneficiaries, and b/ non-financial services such as capacity building, training, advisory services with a specific focus on improving access to markets. Non-financial services will be provided by PMU-contracted service providers (one for SMEs and one for SHGs). Before any loan can be guaranteed, and apart from the activities related to the implementation of the guarantee mechanism, the following activities have to be undertaken: (i) selection of both service providers; (ii) assessment of value chains potential; (iii) identification and selection of SMEs and SHGs; (iv) provision of training and technical assistance; (v) elaboration of a business and investment plan for selected SMEs and SHGs, and (vi) submission to commercial banks. Considering all above-mentioned activities, commercial banks could start extending loans to PMPMD beneficiaries from the beginning of the second semester of 2012. However, some SMEs are already submitting business and investment plans to both commercial banks and development funds while in at least 4 of the 5 PMPMD-selected aimags, SHGs have already been formed and trained by the Mongolian Women Federation under the previous IFAD-funded RPRP. Both these SMEs and SHGs if meeting the eligibility criteria defined under the PMPMD could be financed by commercial banks as soon as April 2012. The project has a 2012-objective of guaranteeing 10 existing SMEs and around 100 SHGs.

7. Achievements under the PMPMD as of October 2012. The Service Provider for the Value Chain Development activities has not yet been selected (bidding cancelled) while the Service Provider for the Micro-enterprise Development activities has been selected since June 2012. 110 women's groups have been formed and their members have been trained in group management. Business management and planning, as well as project development training will be provided to these groups during 3 months starting from October 2012. Assistance to women's groups for drafting business plans and financial projections will be provided during the first quarter of 2013 and loan requests and applications should be submitted to banks and development funds as early as March 2013. Loan requests and applications emanating from producers' and herders' groups as well as from SMEs are expected to be submitted to banks and development funds later in 2013 once the Service Provider has been selected and training has been provided.

8. Considering the importance of having the PMPMD Guarantee Facility operational when women's groups loan requests and applications are submitted to banks and development funds (otherwise these loan applications and requests will be rejected as they are not complying with banks' collateral requirements), the PMPMD Guarantee Facility has to be implemented without any further delay. Considering the uncertainties around the capitalization of the private sector-led LGF LLC and the absence of any expertise from the public sector to implement and manage a Guarantee Facility leading, the PMPMD Guarantee Facility will be implemented under a two-step approach described as follows:

- First step: Implementation by the Ministry of Finance of an Unit as part of the PMPMD PMU which will issue guarantee contracts and individual guarantees;
- Second step: Once an appropriate Loan Guarantee Fund has been licensed by the Financial Regulatory Commission and is operational, the Unit's activities and staff will be transferred to that Loan Guarantee Fund while guarantees previously extended by the Unit will be endorsed by the Loan Guarantee Fund.

#### **Implementation of the PMPMD Guarantee Facility**

9. A Unit is implemented by the Ministry of Finance as part of the PMPMD PMU. The Ministry of Finance will seek agreement with the Financial Regulatory Commission for this Unit to be granted with a special authorization to issue guarantees. The Unit as well as its related special authorization will cease to exist when an appropriate Loan Guarantee Fund, complying with the Law on Guarantee Funds, will be licensed by the Financial Regulatory Commission and be operational.

10. The Unit is staffed with newly recruited professionals (their terms of reference are in annex 1 to Note 1). Once recruited, the PMPMD finances its necessary capacity building and training with regards to guarantee activities. The PMPMD also fully finances the staff's salary and related social charges as well as the Unit's operating expenses, including the procurement of a vehicle to facilitate controls in the field.

#### **Governance**

11. The governing bodies of the PMPMD Guarantee Facility include.

The Unit is managed by a Technical Committee consisting of three people: a/ a representative from the Ministry of Finance; b/ a representative from the Ministry of Industry and Agriculture, and c/ a representative of the Ministry of Labor.

The Technical Committee is mandated by the PMPMD Steering Committee and is vested with the responsibility of:

- a/ signing Guarantee Contracts with each participating financial institution (portfolio guarantee);
- b/ approving inclusion of new loans in their loan guaranteed portfolio (portfolio guarantee);
- c/ approving individual guarantees for new loans (in case of individual guarantees);
- d/ managing PMPMD Guarantee Facility resources, commitments, risk exposures and liability.

The Unit is staffed with two professionals: one Manager and one assistant. They are vested with the following responsibilities:

- a/ review and assess risk on all individual loan applications (in case of an individual loan guarantee);
- b/ randomly assess the compliance of guaranteed loans with eligibility criteria (in case of a portfolio guarantee);
- c/ monthly control the banks' portfolio quality and associated risk exposure of the PMPMD Guarantee Facility;
- d/ review and determine the maximum liability of the PMPMD Guarantee Facility in case of claims;
- e/ monitor the risk exposure, liability and leverage of the PMPMD Guarantee Facility.

## ANNEX 1 to NOTE 1

### TERMS OF REFERENCE

#### THE PMPMD GUARANTEE FACILITY MANAGER/ASSISTANT

1. A Manager is recruited for the PMPMD Guarantee Facility implemented by the Ministry of Finance as part of the PMPMD PMU. The PMPMD Guarantee Facility Manager is vested with the following responsibilities:
  - S/he will review the report of the local consultant contracted by the PMPMD on the selection of participating commercial banks (financial institutions) as well as the documentation submitted by these commercial banks;
  - S/he will negotiate Guarantee Contracts to be signed with the selected participating commercial banks (especially benchmarks used to evaluate the performance of each selected participating commercial banks);
  - On the basis of the monthly list of loans extended by each participating commercial bank that are meeting the PMPMD Guarantee Facility eligibility criteria, s/he will randomly select a few loans and ensure that PMPMD Guarantee Facility eligibility criteria are effectively met. In that respect, s/he will visit each relevant branch of the participating commercial bank to review the loan application. This review is not an assessment on the quality of the project submitted by the applicant nor it is aiming at questioning whether the loan should have been extended or not;
  - S/he will review loan applications and attached documents (business plans, marketing studies, financial projections, contracts) in the case of individual guarantees;
  - S/he will issue the fee invoice based on approved loans extended by participating commercial banks (for both types of guarantee);
  - S/he will review the documents submitted by a participating commercial bank in case of claim submitted to the PMPMD Guarantee Facility. S/he will review activities carried out by the participating commercial bank in accordance with its procedures, will assess whether the claim should be accepted or not, will determine the maximum liability of the PMPMD Guarantee Facility as well as the amount of the first payment and the timing of its process (for both types of guarantee);
  - S/he will submit to the PMPMD Guarantee Facility Technical Committee: a/ the review of the monthly list and the report on controls carried out on randomly selected loans (portfolio guarantee); b/ the review of the loan applications (individual guarantee); c/ the fee invoices (both portfolio and individual guarantees), and d/ the assessment on each claim submitted by a participating commercial bank to the PMPMD Guarantee Facility (for both types of guarantee);
  - S/he will analyze monthly reports submitted by each selected participating commercial bank and will prepare and submit to the PMPMD Guarantee Facility Technical Committee the consolidated statements related to the guarantee activity (consolidated guaranteed loan portfolio) as well as PMPMD Guarantee Facility monthly financial statements (inclusive of risk exposure, maximum liability, financial commitments);
  - S/he will record guarantee contracts, individual guarantees extended, resources allocated for both guarantee purposes, maximum liability exposure of the PMPMD Guarantee Facility as well as all other expenses and incomes;
  - S/he will propose to the PMPMD Guarantee Facility Technical Committee an investment policy for resources transferred by IFAD and other sources;
  - S/he will implement the necessary operational procedures for the PMPMD Guarantee Facility;
  - S/he will draft the terms of reference and the description of the position for any additional staff to be recruited by the PMPMD Guarantee Facility.
2. Qualifications and experience of the PMPMD Guarantee Facility Manager include:
  - At least 8 years of experience in the financial sector, preferably in an investment or a commercial bank, dealing with financing investments from individuals, groups and small and medium enterprises;
  - Financial degree from the university;
  - Knowledge of accounting and legal environment would be an advantage;
  - Capacity to write in English;
  - Experience with donors-funded projects would be an advantage.
3. The Manager of the PMPMD Guarantee Facility is recruited by the PMPMD but his/her duty station is at

the Ministry of Finance. A specific independent office is provided by the Ministry of Finance and equipped by the PMPMD (inclusive of one vehicle, computer equipment and office equipments). S/he will travel to selected Soums of the PMPMD five Aimags i.e. Arkhangay, Bulgan, Gobi-Altai, Khentii, and Khuvsgul as well as to other Soums and Aimags. The contract includes an initial probationary period compliant with the Mongolian Labor Law, with the possibility of extension subject to satisfactory performance.

4. The PMPMD Guarantee Facility acting manager will report to the PMPMD Guarantee Facility Technical Committee.

5. It is expected that, once the activity of the PMPMD Guarantee Facility has been transferred to the appropriate Loan Guarantee Fund, the acting Manager would become a staff member of that Fund. That transfer would be subject to a satisfactory performance and evaluation of the Manager.

Note: These Terms of Reference also apply to the assistant staff to be recruited during the first year of operations of the PMPMD Guarantee Facility. However, the experience of the assistant should be limited to at least 5 years in the banking sector, preferably in an investment department.

The above Term of reference can be used in extenso for the assistant position with the following changes:

- The assistant will be vested with the responsibility of reviewing the guarantee activity related to groups (controls of eligibility criteria for randomly selected loans, assessment of claims and determination of maximum liability of the PMPMD Guarantee Facility, consolidation of activities' reports and financial statements submitted by participating commercial banks and determination of prudential ratios of liability exposure, resources allocated, leverage of the PMPMD Guarantee Facility); and
- Experience of at least 5 years in the financial sector preferably in an investment department.



## **ANNEX 2 to NOTE 1**

### **TERMS OF REFERENCE OF THE TECHNICAL COMMITTEE**

1. The Terms of Reference of the PMPMD Guarantee Facility Technical Committee include the following duties and responsibilities:

- The Technical Committee receives its mandate from the PMPMD Project Management Steering Committee;
- The Technical Committee approves the PMPMD Guarantee Facility Manual of Procedures;
- The Technical Committee approves the list of selected commercial banks to participate in the PMPMD Guarantee Facility based on a report issued by the Unit Manager;
- The Technical Committee signs Guarantee contracts with participating commercial banks (portfolio guarantees);
- The Technical Committee approves lists of new loans included in the PMPMD Guarantee Facility based on recommendations issued by the Unit Manager and a motivated letter of rejection of loans from the PMPMD Guarantee Facility (portfolio guarantee);
- The Technical Committee approved the extension of a guarantee (individual guarantee);
- The Technical Committee defines main policies for the PMPMD Guarantee Facility (leverage and maximum liability);
- The Technical Committee reviews and approves claims submitted by participating commercial banks as well as the amount of the first payment to the bank on the basis of documents and recommendation submitted by the Unit Manager (for both types of guarantee);
- The Technical Committee issues a letter of acceptance for each claim to the commercial bank;
- The Technical Committee reviews resources of the Employment Generation Fund and determines which loans extended by commercial banks are to be funded from the Employment Generation Fund resources (hence benefiting from the PMPMD Guarantee Facility) and those which are to be funded from the PMPMD credit line;
- The Technical Committee follows on the Memorandum of Understanding signed by the Ministry of Finance, Ministry of Industry and Agriculture, and Ministry of Labor related to the availability of resources for financing PMPMD target beneficiaries;
- The Technical Committee determines the level of risk exposure, liability, and leverage per commercial bank, reviews the periodic reports submitted by commercial banks (particularly changes in benchmarks);
- The Technical Committee suspends or terminates Guarantee Contracts or Agreements with a commercial bank in case its performance indicators are no longer within the accepted pre-determined range;
- The Technical Committee determines the investment policy for the PMPMD Guarantee Facility resources;
- The Technical Committee finalizes the PMPMD Guarantee Facility financial statements before submission to IFAD.

## NOTE 2: LOAN BENEFICIARIES AND SELECTION OF COMMERCIAL BANKS

1. The assessment of the Mongolian financial sector has highlighted the following key issues that hinder the access of most poor rural households to financial services:

- Commercial banks are focusing their activities in urban areas with the exception of Khaan Bank, XacBank, and Savings bank which have developed their network also in urban areas (Aimag and Soum levels);
- Commercial banks are long in their liquidity position irrespective of maturity;
- Non-bank financial institutions (NBFIs) that are not supervised by the Mongol Bank but by a specific institution are not operating in all Aimags and have limited resources;
- Interest rates charged by commercial banks when using their own resources start from 2% per month, clearly unsustainable for the PMPMD target population;
- Interest rates charged by NBFIs are starting from 2.5% per month and are as unsustainable for PMPMD target population as those from commercial banks;
- Commercial banks' collateral requirements are very stringent imposing that the value of collateral and guarantee provided by borrowers is at least equal to 140% of the loan amount;
- Financial institutions tend to limit their portfolio with agriculture and agro-processing activities;
- Financial institutions are also reluctant to extend loans to rural SMEs as their market is far from being secured while high and diversified risks can hamper commercialization of rural SMEs production. In addition, low average income in rural areas constitutes a limiting factor for a large and profitable commercialization of high quality products;
- Lack of strengthened and integrated local and national value chains also constitutes a factor preventing most SMEs to access profitable markets confining them to low-key, low profitability markets.

2. To circumvent the negative impact of high interest rates charged by all financial institutions, the GoM and donors have implemented specific funds focusing on activities development or on employment generation:

- SMEs Development Fund. Funded by the Government with MNT 210 billion and managed at the level of the MoIA (formerly with the MoFALI). Investment loans are extended by participating commercial banks (mainly Khaan Bank, XacBank, Savings Bank but also 7 other commercial banks meeting eligibility criteria set by the Mongol Bank) at a maximum of 7% interest rate per year for up to 5 years maturity. Maximum loan size is MNT 1 billion. Loan beneficiaries consist of all registered SMEs (as per definition of the 2007 SME Law) as well as all registered types of organization (mainly partnerships and cooperatives). Repayments formed a revolving fund used for further on-lending. Projections show that revolving fund will annually range from MNT 25 billion to 45 billion during the next 5 years;
- Two-Step-Loan Project. Funded by the Japanese Government (JICA) with MNT 25 billion for Phase I (totally allocated) and MNT 60 billion for Phase II (started since June 2011 with only MNT 13 billion allocated as at September 2012). Only SMEs as per the definition of the 2007 SME Law are eligible to investment loans ranging from MNT 13 million to MNT 800 million bearing an interest rate of 8% per year (subject to change semi-annually depending on LIBOR rate). Loans are extended by Khan Bank, XacBank, Trade and Development Bank, Capital Bank and Golomt Bank;
- Employment Generation Fund. Funded by the GoM and managed by the Ministry of Labor, the resources of this fund amount to MNT 22 billion and are allocated to each soum. Loan amount is maximum MNT 10 million, its maturity is of maximum 2 years and is bearing an interest rate of 0.875% per month (in case of an investment loan, interest is paid by the Fund and not by the borrower). Eligible beneficiaries include individuals and formal groups (partnerships and cooperatives). In the case of groups, loans are extended to the group leader with joint-liability of all other members. In addition, part of the Employment Generation Fund resources is allocated for training and capacity building of loan beneficiaries. The Fund is currently working with the Savings Bank but can operate with other banks. The Employment Generation Fund received an annual allocation from the GoM based on a tax on imported labor paid by companies (projected annual allocation ranges from MNT 50 to 60 billion).
- ADB Project. ADB project refinances 50% of loans extended by commercial banks to eligible SMEs (meeting the eligibility criteria defined by the 2007 SME Law). Interest rate charged by ADB to banks is 1.5% while a cap has been set on the interest rate charged by banks to the final borrowers (ranging from 7 to 10% depending whether the loan is in local currency or in USD).
- SLP-II Project. Funded by the World Bank, resources are provided to the Micro-Finance Development Fund (MFDF) at an highly concessional term by several international donors (World Bank, EU, Japan). These resources are extended by the MFDF to commercial banks at 6.5% yearly interest rate, while banks are on-lending them to SMEs at an average of 2% per month.

3. With regards to loans extended by commercial banks based on the above-mentioned resources, since 100% of the risk is assumed by commercial banks, these latter select loan applications using their methodology including collateral requirement. The value of collateral to be provided by the borrower should be at least equal to 140% of the loan amount, which is not affordable for most poor households and micro and small enterprises in rural areas.

4. Other funds are also available such as the Soum Development Fund or a specific allocation for each Parliament member. However, these funds are not channeled through the financial system and the method of selection of borrowers can be less transparent as the previously mentioned funds' ones. In addition, loans extended through these funds are often bearing no interest and their recovery process remains to be assessed.

5. PMPMD beneficiaries comprise of:

- Producers' groups linked with existing SMEs which want to secure their supply chain by developing stable relationships with producers' groups (namely herders' groups, producers' groups). The stable relationship will materialize through a commercial agreement specifying quality and quantity as well as related increased purchase price if quality and quantity standards are met. Investments in the range of MNT 50 to 300 million (USD 35 000 to USD 200 000) will be submitted by these SMEs/producers' groups once the profitability and long-term sustainability of the value chain in which they operate have been assessed and once producers' groups have been identified, organized and their members' capacity strengthened. Typical investments should be in the range of USD 70/100 000;
- Producers' groups entering into partnership with other entrepreneurs in a new joint-venture as a result from the decentralization of primary processing activities at Soum level. In that respect, decentralized primary processing activities could be implemented through a joint-venture (limited liability company) in which producers' groups and private enterprise/entrepreneur could be shareholders (typical investment would be in the range of MNT 100 million);
- Herders and poor households' groups (self-help groups) who could start an income generating activity and be integrated in a short (local) value chain (typical investment would be in the range of maximum MNT 2 000 000 per member of a 10-member group). Groups will comprise of a majority of women.

6. PMPMD beneficiaries are to be found in selected Soums in the following five Aimags (Arkhangay; Bulgan, Gobi Altai, Hentii, and Huvsgul).

7. Other beneficiaries comprise of the same categories of beneficiaries as defined for PMPMD beneficiaries and are to be found in Soums and Aimags not included in the PMPMD.

8. PMPMD and other beneficiaries' demand for loans include:

- Herders', farmers' or producers' groups: Investment loans with related working capital for tools and equipments, inputs as well as productive infrastructure;
- Herders/farmers' groups as shareholders of to-be-created SMEs: Loans for holding equity in the to-be-created SMEs;
- Women's groups: Investment loans to finance their income generating activities.

9. Participating financial institutions extend loans to PMPMD and other beneficiaries following their own approval procedures, with no interference from the PMPMD. To maximize the possibility of success, commercial banks extend their loans using specific financial resources, i.e. SMEs Development Fund resources (interest rate at 7% per year); JICA-supported Two-Step Loan project resources (interest rate at 8% per year); ADB project resources (interest rate at 7% per year), and Employment Generation Fund resources (interest rate at 10.50% per year).

10. As far as financing women's groups is concerned, the Employment Generation Fund resources are not sufficient to cover both the demand from PMPMD beneficiaries and from other beneficiaries. Under such circumstances, commercial banks will have the possibility to fund their loans from PMPMD resources extended to commercial banks in the form of a credit line. This credit line, with loan repayments forming a revolving fund with each participating bank, will be used by participating banks to finance PMPMD's women's groups under the same terms and conditions as those used by banks when using the EGF's resources to finance eligible beneficiaries (interest rate at 0.875% per month). In PMPMD-selected Soums, based on the consolidation of all loan requests from both PMPMD and other beneficiaries, their risk assessment and the determination of available EGF's resources, riskier investments would be financed through EGF's resources and would benefit from the PMPMD's guarantee, while less risky investments would be financed from PMPMD's credit line. When banks use PMPMD's resources, they would bear a percentage of the final loss equivalent to their share of risk/loss under the guarantee coverage offered by the PMPMD's Guarantee Facility for similar investments.

11. It is expected that producers' and herders' groups will be financed with resources from SMEs Development Fund, JICA-supported Two-Step Loan project and ADB project while women's groups will mainly be financed with resources from the Employment Generation Fund.

12. As far as PMPMD-supported producers' and herders' groups are concerned, the PMPMD will assist them with their formalization and registration process (as a partnership or a cooperative). Loans will be extended by participating commercial banks either to the group as an entity or to each individual member of the group.

13. As far as PMPMD-supported women's groups are concerned, it is premature to have these groups formerly registered. In that respect, the commercial bank loan is extended to: (i) each member of the SHG with all the members being joint-liable; (ii) each activity leader who will submit a business plan including the needs of other members undertaking the same activity and who will be joint-liable, or (iii) to the women's group leader who will then distribute the loan proceeds among each group member according to its need.

Selection criteria for commercial banks to access the PMPMD Guarantee Facility.

14. The PMPMD Guarantee Facility only works with commercial banks that have been selected to work with the SMEs Development Fund, Two-Step Loan project, ADB Project, and Employment Generation Fund. The PMPMD Guarantee Facility Technical Committee will issue a request for an Expression of Interest to all banks participating in the previously mentioned funds and projects. To the Expression of Interest should be attached the following documents and information:

- Audited financial statements for the last three years;
- Quarterly calculation for the past 12 months of:
  - Repayment rate at 0 day and 90 days
  - Portfolio at risk at 0 day and 90 days
  - Loan loss rate
  - Non-performing portfolio over total portfolio
  - Write-off ratio (loan written-off over total portfolio and loan written-off over total non-performing portfolio)
  - Provision for loans over non-performing portfolio
  - Return on equity
  
  - Net operating margin and profit before depreciation and tax
- Manual of procedures.

15. The Unit Manager will review and analyze the financial data submitted by each commercial bank. Only commercial banks which performance indicators comply with the following benchmarks will be short-listed:

- Quality of the portfolio:
  - Repayment rate should be above 95%;
  - Portfolio at risk should be less than 5%;
  - Non-performing portfolio should be less than 40%.
- Profitability:
  - Return on Equity should be above 7%;
  - Financial statements should show a net operating profit before tax during last 3 years;
  - Net operating margin against average portfolio should be higher than 7%.
- Audit:
  - Auditors' unqualified opinion for the past 3 years.

16. Apart from complying with the above-mentioned performance indicators, the quality of internal procedures of each commercial bank, with a specific focus on loan approval procedures, loan portfolio monitoring and follow-up as well as loan recovery and write-off procedures, will have to be assessed prior to the signature of a guarantee contract between the PMPMD Guarantee Facility and the commercial bank or prior to the extension of individual guarantees to cover risk on loans extended by the commercial bank to eligible beneficiaries. In that respect, a local consultant will be contracted by the PMPMD PMU to carry out the assessment. The terms of Reference and qualification required for the local consultant are detailed in annex 1 of the present note.

17. For short-listed commercial banks (i.e. meeting performance indicators) which procedures have been positively assessed by the local consultant, the PMPMD Guarantee Facility Manager will negotiate the current benchmarks to be used for monitoring and evaluating performances of each participating commercial bank (portfolio at risk at 0 day and 90 days, loan loss ratio, and write-off ratio). These benchmarks will be included in a Guarantee Contract (in the case of a portfolio guarantee) or in a Guarantee Agreement (in the case of individual guarantees).

18. Guarantee contracts and Guarantee Agreements are submitted to the PMPMD Guarantee Facility Technical Committee for final approval and signature.

## **ANNEX 1 to NOTE 2**

### **TERMS OF REFERENCE**

#### **THE ASSESSMENT OF COMMERCIAL BANKS**

1. Commercial banks that are meeting the Mongol Bank requirements will be short-listed by the PMPMD Guarantee Facility (see point 15 of note 2). The quality and efficiency of each short-listed commercial banks with regards to: a/ loan assessment and approval procedure; b/ portfolio follow-up and monitoring; c/ recovery procedures, and d/ write-off procedures have to be assessed.
2. In that respect, the Project Management Unit of the PMPMD will contract a local audit firm or an independent auditor to undertake a review of the above-mentioned procedures for each of the short-listed commercial banks.
3. Terms of reference. The selected local audit firm/auditor will carry out the following controls:
  - Document the following procedures: a/ loan assessment and approval procedure; b/ portfolio follow-up and monitoring (including performance indicators); c/ recovery procedures (extra- and judicial procedures), and d/ write-off procedure;
  - Review the effective implementation of these procedures by randomly select a few loans and follow the whole procedures;
  - Discuss with loan officers, supervisors, portfolio responsables and members of credit committee approval to assess reliability of procedures;
  - Assess the validity of the procedures and the potential risk when approving a loan, when monitoring and when recovering past due amounts by comparing short-listed commercial bank's procedures with generally accepted bank standards;
  - Identify possible internal and external interferences within the procedures and the risk associated with such interferences.
4. Qualifications. The selected audit firm/auditor should have the following experience and qualifications:
  - Registered as a certified public accountant (or equivalent diploma) in Mongolia;
  - More than 10 years of experience in audit;
  - More than 5 years of experience in control and audit of financial institutions;
  - No conflict of interest with one short-listed commercial bank (the auditor or audit firm should not be the legal auditor or audit firm of one of the short-listed commercial bank).
5. Two audit firms/auditors will be selected by the PMU PMPMD to avoid any conflict of interest. Considering that 10 commercial banks are currently participating in the SMEs Development Fund, the Two-Step Loan project, the ADB project as well as in the Employment Generation Fund, each selected audit firm/auditor will be vested with the responsibility of auditing/assessing five commercial banks.

### NOTE 3: GUARANTEE ACTIVITY

#### Guarantees: type, coverage and contracts

1. The PMPMD Guarantee Facility will extend two different types of guarantee: (i) portfolio guarantees, and (ii) individual guarantees.
  - Portfolio guarantees will be extended to selected commercial banks for their loans to: (a) women's groups, and (b) producers and herders' groups;
  - Individual guarantees will be extended to selected commercial banks for their loans to SMEs.
2. The PMPMD Guarantee Facility has financial resources allocated to extend guarantees to commercial banks for two types of beneficiaries: (a) PMPMD-supported beneficiaries i.e. SMEs, producers' groups, herders' groups and women's groups located in PMPMD-select Soums, and (b) SMEs, producers' groups, herders' groups and women's groups located in non-PMPMD-selected Soums.
3. The guarantee coverage provided by the PMPMD Guarantee Facility encompasses the following principles:
  - a/ The PMPMD Guarantee Facility covers between 50% and 80% of losses on any eligible loan extended by a selected commercial bank.
    - The up to 50% coverage is used for SMEs that can provide collateral and guarantee against a loan extended by a selected commercial banks;
    - For producers' and herders' groups (including those involved in the implementation of joint-ventures with micro- and small enterprises), the guarantee coverage is up to 60% after evaluation on a case by case basis by the selected commercial bank of the possible collateral the borrower can provide against its loan;
    - For women's groups, the guarantee coverage is up to 80% (and then decreasing for further loans on a case-by-case basis).
  - b/ The PMPMD Guarantee Facility doesn't wait for the termination of all legal procedures initiated by selected commercial banks to recover the total amount due from the borrower before paying out its share of the risk;
  - c/ The PMPMD Guarantee Facility considers a first down payment calculated on the amount due by the defaulting borrower when the loan has been called in by the commercial bank;
  - d/ The PMPMD Guarantee Facility considers a second and final payment 90 days after the first payment based on the outstanding amount due by the borrower at that time;
  - e/ The PMPMD Guarantee Facility and commercial banks agree on a pari passu follow-up of recoveries post-payments from the PMPMD Guarantee Facility;
  - f/ The amount on which the PMPMD Guarantee Facility coverage is applied includes:
    - Outstanding amount of installments that were due during the 90-day period preceding the date the outstanding loan amount was called in by the participating commercial banks (principal and contractual interests);
    - Outstanding loan principal at the time the outstanding loan amount has been called in by the participating commercial bank<sup>11</sup>;
    - Penalties and legal fees are not considered and not covered by the PMPMD Guarantee Facility.
4. Contract for portfolio guarantees. With each selected commercial bank, the Unit signs a Guarantee Contract (see annex 1). These Guarantee Contracts will be endorsed by the Loan Guarantee Fund once established and registered.
5. The main elements of a Guarantee Contract include:
  - (i) Percentage of loss covered by the PMPMD Guarantee Facility;
  - (ii) Procedures to call upon the PMPMD Guarantee Facility;
  - (iii) Modalities for calculating the PMPMD Guarantee Facility liability, pay-outs procedure and time schedule;
  - (iv) Current benchmarks to be used for monitoring and evaluating performances of the commercial bank;
  - (v) Causes for suspending and terminating the Contract;
  - (vi) Eligibility criteria for a loan to be included in the guaranteed loan portfolio;
  - (vii) Maximum guaranteed portfolio during the first year of the Contract;
  - (viii) Fee rate and its calculation;

<sup>11</sup> When the outstanding loan amount has been called in by the financial institution, contractual interests due by the borrower are frozen.

- (ix) Controls made by the Unit and reporting issued by the commercial bank to the Unit;
- (x) Duration of the Guarantee Contract.

6. Agreement for individual guarantees. With each selected commercial bank, the Unit signs a Guarantee Agreement (see annex 2). These Guarantee Agreements will be endorsed by the Loan Guarantee Fund once established and registered. Guarantee Agreements do not materialize guarantees extended by the PMPMD Guarantee Facility to commercial banks, they rather detail conditions to be met by loans to access the guarantee.

7. The main elements of a Guarantee Agreement include:

- (i) Percentage of loss covered by the PMPMD Guarantee Facility;
- (ii) Procedures to call upon the PMPMD Guarantee Facility;
- (iii) Modalities for calculating the PMPMD Guarantee Facility liability, pay-outs procedure and time schedule;
- (iv) Eligibility criteria for a loan to benefit from an individual guarantee;
- (v) Fee rate and its calculation;
- (vi) Reporting issued by the commercial bank to the Unit;
- (vii) Duration of the Guarantee Agreement.

#### **Guarantee extension**

8. Individual Guarantee. Loan applications submitted by SMEs (existing or to-be-created) will be reviewed and assessed by both a commercial bank and the PMPMD Guarantee Facility. SMEs will either submit their loan applications and supporting documentation (business plan and financial projections) to both the commercial bank and the PMPMD Guarantee Facility, or only to the commercial bank which will submit the application and the supporting documentation to the PMPMD Guarantee Facility if the loan has been approved.

9. Apart from the profitability of the project and its capacity to pay back the loan that constitute eligibility criteria for the commercial bank, eligibility criteria to access the PMPMD Guarantee Facility include:

- Loan extended to an existing or to-be-created SME;
- Maximum loan amount of USD 300 000 (or its equivalent in local currency);
- Interest rate equal to that charged by commercial banks when lending from specific sources (i.e. SMEs Development Fund, JICA-supported Two-Step Loan Project, ADB Project);
- Complying with eligibility criteria set by the SMEs Development Fund, the JICA-supported Two-Step Loan project, or the ADB Project (i.e. compliance with criteria defining a SME; compliance with SMEs registration, compliance with list of activities to be financed, with loan size and maturity; compliance with purpose of the loan);
- Activity financed within a PMPMD-selected value chain;
- Profitability of the project;
- Repayment capacity of the project and/or of the borrower.

10. In addition to the above-mentioned eligibility criteria which apply to all beneficiaries (PMPMD and others), the following additional eligibility criteria will also apply:

- PMPMD Soums
  - SMEs must be located in PMPMD Soums or their suppliers (producers' groups and/or herders' groups) must be located in PMPMD Soums;
  - SMEs' investment to be financed must benefit to producers and/or herders' groups (increased number of producers and/or herders supplying the SME; increased purchase price paid to producers and/or herders; increased volume of production purchased from producers and/or herders);
  - SMEs are supported and monitored by the PMPMD-selected specific service provider.
- Non-PMPMD Soums
  - SMEs' investment to be financed must benefit to producers and/or herders' groups (increased number of producers and/or herders supplying the SME; increased purchase price paid to producers and/or herders; increased volume of production purchased from producers and/or herders).

11. Once the loan application, business plan and financial projection have been assessed by the PMPMD Guarantee Facility, the Unit Manager will issue a Letter of Provisional Guarantee addressed to the commercial bank which will be transformed into a Letter of Guarantee once the loan has been effectively approved by the commercial bank (a formal letter will be issued by the commercial bank to that effect). Annex 3 details the elements to be included in the Letter of Guarantee.

12. The issuance of Letters of Guarantee triggers the recording of individual guarantees in the PMPMD Guarantee Facility financial statements (off-balance sheet commitments). Recording will include the following information:

- Identification number (internal number of the financial institution);

- Name of the borrowing entity
- Location of the activity financed;
- Activity financed;
- Purpose of the loan;
- Date of the loan;
- Loan amount;
- Duration and maturity of the loan (with eventual grace period);
- Interest rate;
- Repayment schedule;
- Brief description of collateral/guarantee provided by the borrowing entity;
- Percentage of the PMPMD Guarantee Facility risk coverage.

13. Portfolio Guarantee. Each and every loan meeting the eligibility criteria extended by selected commercial banks will be automatically guaranteed without the Unit reviewing and assessing each loan application.

14. The eligibility criteria to access the PMPMD Guarantee Facility include:

- For producers' and herders' groups:
  - Maximum loan amount of USD 100 000 (or its equivalent in local currency);
  - Interest rate equal to those charged by commercial banks when lending from the SMEs Development Fund;
  - Complying with eligibility criteria set by the SMEs Development Fund (type of beneficiary, compliance with list of eligible activities, loan size and maturity, purpose of the loan);
  - Activity financed within a PMPMD-selected value chain.
- For women's groups:
  - Maximum loan amount of MNT 2 million for an individual and MNT 10 million for a group;
  - Interest rate equal to that charged on loans extended from the Employment Generation Fund;
  - Complying with eligibility criteria set by the Employment Generation Fund (compliance with types of beneficiaries, loan size and maturity, purpose of the loan);
  - Activity financed within a PMPMD-selected value chain.

15. In addition of the above-mentioned eligibility criteria that are common to both PMPMD and other beneficiaries, the following eligibility criteria apply only to PMPMD beneficiaries (for both herders' and producers' groups and women's groups):

- Located in a PMPMD selected aimag/soum;
- Supported and monitored by the PMPMD-selected specific service provider.

16. As described in the previous note 2, selected commercial banks are extending loans under their own procedures. At the end of each month, each selected commercial bank will submit to the Unit the list of all loans extended during the month that are presumably meeting the set of eligibility criteria. This list contains the following information:

- Identification number (internal number of the financial institution);
- Name of the borrowing entity
- Location of the activity financed;
- Activity financed;
- Purpose of the loan;
- Date of the loan;
- Loan amount;
- Duration and maturity of the loan (with eventual grace period);
- Interest rate;
- Repayment schedule;
- Brief description of collateral/guarantee provided by the borrowing entity.

17. Upon reception of these monthly lists, 3 to 5 loans will be randomly selected for each selected commercial bank. The Unit staff will review in situ loan applications to ensure that eligibility criteria are effectively met (no reassessment of the loan demand and whether the financial institution should have extended the loan or not). Each monthly review of newly guaranteed loans will be summarized in a specific report detailing the conclusions of the Unit staff for each loan reviewed. In case one loan is not meeting eligibility criteria, it will be automatically and retroactively excluded from the participating financial institution loan guaranteed portfolio.

18. A report is issued on each control carried out and submitted to the PMPMD Guarantee Facility Technical Committee together with: (i) the monthly list of new loans extended by selected commercial banks during that period and, (ii) the list of all loans that should be excluded from the PMPMD Guarantee Facility after controls.



19. The PMPMD Guarantee Facility Technical Committee approves both documents (the list of new loans and the list of loans excluded) and issues a letter to each selected commercial bank. This letter details each and every loan for which the access to the guarantee facility has been denied (and reasons behind that decision) and indicates that all other loans are formally accepted.

20. The report triggers recording of above-mentioned information related to new guaranteed loans in PMPMD Guarantee Facility financial statements (off-balance sheet commitments).

#### **Fee**

21. Commercial banks pay an upfront fee of 1% per annum calculated on the annual outstanding amount of each new guaranteed loan.

22. As far as individual guarantees are concerned, the issuance of the Letter of Guarantee triggers the issuance of a Fee Invoice to the commercial bank for the amount of the guaranteed loan. At the anniversary date of each individual guaranteed loan, the Unit will submit a new Fee Invoice based on its outstanding loan amount.

23. As far as portfolio guarantees are concerned, after his/her controls on new loans, the Unit Manager issues a Fee invoice based on the cumulative outstanding loan amount of all accepted loans. At each anniversary date of each loan, the Unit Manager issues a new Fee Invoice, the amount of which will be based on the cumulative outstanding amount of loans at that anniversary date.

24. Selected commercial banks will also have 20 days upon reception to pay the fee. Failure to pay the fee in due time invalidates the guarantee for related loans. For whatever reason, no fee will be refunded by the PMPMD Guarantee Facility.

25. In order to minimize the impact of the fee, selected commercial banks agree to pass only 50% of the fee amount on to borrowers and to bear the remaining 50%.

#### **Claims**

26. The conditions under which a selected commercial bank can call upon the guarantee scheme to pay out will be stated in the Guarantee Contract and Guarantee Agreement signed between the selected commercial bank and the Unit. Conditions include:

- Arrears have reached 90 days;
- Borrowers have been appropriately warned;
- The outstanding loan has been called in;
- Legal proceedings have been initiated to foreclose on collateral and recover the debt.

27. The procedure for calling upon the PMPMD Guarantee Facility is the same whether the loan has been individually guaranteed or included in the loan portfolio guaranteed.

28. Before the selected commercial bank (SCB) can send a claim to the Unit, it would have to apply to the Court for a writ. The writ would demand that the borrower settle the claim or defend the writ in Court. The SCB would then be able to send a claim to the Unit, attaching a copy of the writ. The writ would act as proof that the SCB has initiated legal procedures. The SCB has 1 month after the outstanding loan has been called in to introduce the case at the Court in view of obtaining a Court writ. Failure to introduce the case in due time would invalidate the guarantee for the loan concerned by that procedure.

29. Each SCB will submit a monthly list to the Unit Manager detailing loans that have been called in and for which a Court writ has been obtained. The SCB formally calls upon the PMPMD Guarantee Facility through a Cover Letter which will effectively materialize the claim. The list is attached to the Cover Letter and includes the following elements:

- Name of the borrower;
- Location of the activity;
- Activity financed;
- Initial amount of the loan;
- Amount paid;
- Outstanding amount at date (broken down between: a/ installments due prior to call in, and b/ outstanding principal amount);
- Date of: a/ outstanding loan having been called in, and b/ writ;
- Guarantee/collateral provided by the borrower.

30. Together with the list, the SCB will provide the following documents: a/ copy of the loan application; b/ copy of the loan contract; c/ description of the guarantee/collateral provided by the borrower including the evaluation carried out by the SCB (if any); d/ report on the legal and extra-legal actions undertaken by the SCB to recover past due amounts from the day of the first missed installment with copy of all relevant documents, and e/ copy of the writ. These photocopies have to be stamped and signed by the SCB Manager.

31. SCBs have 15 days to submit Cover Letters and the list to the Unit after the end of the previous month.

Failure to do so would invalidate the guarantee given to loans included in that list.

32. Should SCBs forget to include a default loan in the monthly list of loans for which a Court writ has been obtained, the guarantee is invalidated for that particular loan.

#### **Validation of claims**

33. The Unit staff verifies that all documents related to the claim have been submitted by the SCB. The Unit staff undertakes a visit to the SCB branch that has extended the loan and might also visit the borrower. The purpose of the visit to the branch is to collect all relevant missing documents necessary to assess the claim and to discuss with the loan officer and branch manager on: (i) the recovery process, (ii) the actualized value of guarantee/collateral provided by the borrower, and (iii) the status of any legal action initiated by the SCB since the loan has been called in. The Unit staff reports on its visit.

34. It sends the whole documentation as well as its report to the PMPMD Guarantee Facility Technical Committee. Attached to SCB documents, it also sends the copy of the relevant Letter of Guarantee (for individual guarantee) or Letter of acceptance/rejection of new loans (for portfolio guarantee), the copy of the relevant Fee Invoice as well as monthly financial reports from the SCB.

35. The PMPMD Guarantee Facility Technical Committee assesses the technicalities of the claim, evaluates the PMPMD Guarantee Facility maximum liability exposure, calculates the amount of the first payment to be made by the PMPMD Guarantee Facility and determines the time schedule for the second and last one. In that respect, the Technical Committee assesses that:

- Fee has been paid by the SCB for the relevant period;
- Request for the loan inclusion in the PMPMD Guarantee Facility has been timely sent (for loans included in the guaranteed loan portfolio);
- Borrower was eligible to the PMPMD Guarantee Facility;
- Claim has been presented to Court within the agreed timeframe;
- Court writ has been obtained during the past month;
- SCB internal procedures have been complied with<sup>12</sup> (compliance with the 90-day delay before calling the loan in, borrower has been appropriately warned, required letters have been effectively timely sent);
- Legal actions have been initiated to foreclose on collateral and recover the debt.

36. The PMPMD Guarantee Facility Technical Committee calculates and determines:

- PMPMD Guarantee Facility maximum exposure or liability on the basis of: (i) the outstanding amount of the loan i.e. outstanding amount of installments due during a period of maximum 90 days before the date the loan has been called in by the SCB plus the outstanding principal amount at the date of the loan being called in, and (ii) the risk-sharing agreement as included in the Letter of Guarantee or Guarantee Contract<sup>13</sup>;
- Amount of the first payment<sup>14</sup>;
- Estimated amount of the second and last payment;
- Time schedule<sup>15</sup>.

37. Upon the reception of the 'Cover Letter' from the PFI calling upon the PMPMD Guarantee section/unit (later the Loan Guaranteeing Entity), the PMPMD Guarantee section/unit (later the Loan Guaranteeing Entity) staff and the Claim Technical Committee have a maximum of 30 days to: (i) collect the necessary information (staff); (ii) visit the financial institution's branch and the borrower (staff); (iii) assess the claim (Claim Technical Committee); (iv) recommend its admission/rejection (Claim Technical Committee); (v) calculate the amount to be paid (Claim Technical Committee); (vi) approve the recommendation and calculation of the Experts (Claim Technical Committee), and (vii) request the payment of the claim to the PFI.

#### **Payment of claims**

38. Each decision of the PMPMD Guarantee Facility Technical Committee is registered in the meeting's minutes. The Technical Committee issues a Letter of admission/rejection of the claim. In case of admission, the letter details the amount considered as the basis for the calculation of the PMPMD Guarantee Facility coverage, the amount of the first payment, the time schedule for the second amount. In case of rejection, the letter details

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<sup>12</sup> Rescheduling is an option that can be used by SCBs. Rescheduled loans are eligible to the PMPMD Guarantee Facility coverage. However, these loans should be treated separately in monthly financial reports as they bear a greater risk.

<sup>13</sup> A loan has been extended for MNT 1 million guaranteed by the PMPMD Guarantee Facility up to 60%. On July 14<sup>th</sup>, the loan has been called in by the SCB, unpaid installments due during the 90-day period preceding July 14<sup>th</sup> amount to MNT 150 000 and outstanding principal due after that date amounts to MNT 500 000. The total outstanding amount is MNT 650 000. The PMPMD Guarantee Facility coverage is based on MNT 650 000 and its maximum liability exposure is MNT 390 000.

<sup>14</sup> Following the preceding example, the amount of the first payment would be MNT 195 000.

<sup>15</sup> The first payment should be processed no later than 30 days upon reception of the 'Cover Letter'. Following the preceding example, if the Court writ has been obtained on September 10<sup>th</sup>, the SCB should submit the Cover Letter no later than October 15<sup>th</sup>. Then, the payment should be processed no later than November 15<sup>th</sup> while the second payment would be processed no later than February 15<sup>th</sup>. Amount of the second payment would depend on recoveries made by the SCB but its maximum amount would be MNT 195 000.

the reasons. The Letter is signed by the Chairperson of the PMPMD Guarantee Facility Technical Committee. The Technical Committee also issues to the commercial bank where the PMPMD Guarantee Facility resources are deposited a Request for payment for the first payment. The Request is signed by both the Unit Manager and the Chairperson of the PMPMD Guarantee Facility Technical Committee.

39. Payments by the PMPMD Guarantee Facility of an accepted claim are processed as follows:
- First step. Payment equal to 50% of the liability of the PMPMD Guarantee Facility. The payment is to be processed within 30 days upon reception of the Cover Letter from the SCB;
  - Second stage. 90 days after the first payment, payment of the balance of the PMPMD Guarantee Facility liability. The amount of the second and final payment equals 50% of the liability known at that date minus the amount of the first payment.
40. If the amount of the first payment exceeds the PMPMD Guarantee Facility final liability when calculating the second and final payment, the Technical Committee issues a Request for Reimbursement of Undue Amount signed by both the Unit Manager and the Chairperson of the PMPMD Guarantee Facility Technical Committee and send it to the SCB for immediate action<sup>16</sup>.

### Recovery of losses

41. The SCB will continue its efforts to recover the total amount of the loan due from the borrower through legal procedures. These legal procedures could eventually lead to the recovery of part of the loan (or its totality) after the PMPMD Guarantee Facility has processed its second and final payment. In that case, any amount recovered by the SCB would be treated *pari passu* i.e. each amount recovered would be split between the PMPMD Guarantee Facility and the SCB according to the risk-sharing agreement (as per Letters of Guarantee or the Guarantee Contracts).
42. The SCB informs the Unit Manager when a guaranteed loan has been written-off. The write-off procedure doesn't prevent the SCB to continue its efforts to recover any unpaid amount.
43. Annex 4 illustrates the calculation of each payment made by the PMPMD Guarantee Facility on a guaranteed loan for which the PMPMD Guarantee Facility has been called in by the SCB and illustrates the timeframe of the procedure.

### Suspension and termination

44. Suspension and termination will only occur in the case of a portfolio guarantee.
45. Suspension. In case the main indicators are no longer below the benchmarks indicated in the Guarantee Contract for three consecutive months, the access to the PMPMD Guarantee Facility is suspended. It will resume only when all benchmarks are back within the agreed limits for three consecutive months. However, during the period of the suspension the guarantee will remain valid for the loans covered during the previous months. The loans that the SCB might have extended during the period of the suspension are not retroactively covered by the PMPMD Guarantee Facility.
46. Main indicators include:
- Repayment rate at 0 day;
  - Portfolio at risk at 90 days;
  - Loan loss ratio;
  - Write-off ratio.
47. Before signing the Guarantee Contract, parties would have negotiated the benchmark (maximum value). Value given to each indicator should not reflect the current position of each indicator. For example, if the portfolio at risk is currently 5%, the benchmark should not be 5% but both parties could agree on a value of around 8%.
48. The monitoring of these benchmarks will be done each month by the Unit Manager who will elaborate a simple table showing the monthly evolution of those indicators. This table will also enable the PMPMD Guarantee Facility Technical Committee to evaluate the PMPMD Guarantee Facility maximum liability exposure considering the current level of the portfolio for each financial institution as well as the relevant leverage.
49. Termination. The PMPMD Guarantee Facility Technical Committee has the right to terminate the Guarantee Contract without need of legal action if the SCB fails to fulfill its obligations mentioned under the Guarantee Contract (absence of fee payment, absence of reporting). However, the guarantee remains valid for loans previously covered by the PMPMD Guarantee Facility until the last guaranteed loan is repaid by its borrower or the last claim has been paid by the PMPMD Guarantee Facility (whichever happens last).

<sup>16</sup> For example, the outstanding amount used for the first payment is MNT 480 000 and the PMPMD Guarantee Facility coverage is 60%. The PMPMD Guarantee Facility first payment equals MNT 144 000 (480 000 \* 60% \* 50%). Assuming that the SCB has recovered MNT 300 000 during the past 90-day period since the first payment, the new total PMPMD Guarantee Facility liability equals MNT 108 000 [(480 000 - 300 000) \* 60%]. The PMPMD Guarantee Facility has paid MNT 36 000 in excess and the SCB should transfer that amount back to the Unit.

50. Duration. Portfolio guarantees extended to SCB remain valid until the last guaranteed loan is repaid or the last accepted claim from the SCB has been paid out by the GF whichever happens last. The SCB can give up its access to the PMPMD Guarantee Facility at any time while the validity of the guarantee will remain as previously mentioned.

## ANNEX 1 to NOTE 3

### GUARANTEE CONTRACT - PORTFOLIO GUARANTEE

Contract number: .....

It is agreed between the PMPMD Guarantee Facility, implemented as a department of the PMPMD Project Management Unit under the supervision of the Ministry of Finance (the Guaranteeing Entity) and represented by Mr. ...., as the First Party;

and

..... [name of the Bank], known as the 'Bank', established in [year], and duly registered with the Mongol Bank, with its head office located at ..... [address] and represented in this Guarantee Contract by ..... [name and position] as the Second Party.

The subject of this contract is a Portfolio Guarantee Facility provided by the First Party to the Second Party for eligible loans extended to eligible beneficiaries.

#### Introduction

IFAD and the Government of Mongolia have agreed on the development of a specific programme 'Project for Market and Pasture Management Development' to sustainably reduce rural poverty through greater opportunities for producers, herders, farmers to participate or find employment in commercially competitive rural supply chains by means of increased linkages of producers' groups to micro, small and medium enterprises and by means of assisting women's groups to develop their income-generating activities. The programme has two components: (i) Market Development, and (ii) Pasture Management and Climate Change Adaptation. The Market Development component comprises of, among other activities, a support to micro, small and medium sized rural enterprises, producers' groups, herders' groups and women's groups in the form of a guarantee instrument for investment loans extended by commercial bank through a Guarantee scheme. Funds allocated for the guarantee scheme amount to USD 1.0 million for PMPMD-supported target beneficiaries (SMEs, producers and herders' groups, women's groups in PMPMD-selected soums) and USD 1.9 million for other beneficiaries (SMEs, producers and herders' groups, women's groups in other soums).

#### Definitions

- Individual guarantee scheme: A scheme that issues contracts to lenders to guarantee a certain part of the risk on an individual loan after an assessment of the loan application by the guaranteeing institution.
- Portfolio guarantee scheme: A scheme that issues contracts to lenders to guarantee a certain part of the risk borne by their loan portfolio depending on some eligibility criteria.
- Portfolio at risk: Total outstanding guaranteed loan amount overdue divided by total outstanding guaranteed loan portfolio.
- Guarantee Facility liability: The Guarantee Facility liability is based on the net outstanding loan amount at any point in time times the percentage of risk borne by the Guarantee Facility and predetermined in the Guarantee Contract (risk-sharing arrangement).
- Pari passu: At equal rate of pace, in the same proportion.

Art. 1: The PMPMD Guarantee Facility provides a portfolio guarantee to the Bank for loans extended to the PMPMD target beneficiaries and located in its area i.e. Arkhangay, Bulgan, Gobi-Altai, Hentii, and Huvsgul [list all soums included in PMPMD].

Art. 2: In other soums, the PMPMD Guarantee Facility provides a portfolio guarantee to the Bank for loans extended to SMEs, producers' and herders' groups and women's groups.

#### Eligibility criteria

Art. 3: The portfolio guarantee provided by the PMPMD Guarantee Facility covers loans extended by the Bank from the date of the signature of the present contract. The portfolio consists of all loans extended to producers' groups, herders' groups and women's groups meeting the following eligibility criteria:

- For producers' and herders' groups:
  - Maximum loan amount of USD 100 000 (or its equivalent in local currency);
  - Interest rate equal to those charged by commercial banks when lending from the SMEs Development Fund;
  - Complying with eligibility criteria set by the SMEs Development Fund (i.e. type of beneficiary, compliance with list of eligible activities, with loan size and maturity, with purpose of the loan);
  - Activity financed within a PMPMD-selected value chain.
- For women's groups:
  - Maximum loan amount of MNT 2 million for an individual and MNT 10 million for a group;
  - Interest rate equal to that charged on loans extended from the Employment Generation Fund;
  - Complying with eligibility criteria set by the Employment Generation Fund (i.e. compliance with types of beneficiaries, with loan size and maturity, with purpose of the loan);
  - Activity financed within a PMPMD-selected value chain.

In addition of the above-mentioned eligibility criteria that are common to both PMPMD and other beneficiaries, the following eligibility criteria apply only to PMPMD beneficiaries (for both herders' and producers' groups and women's groups):

- Located in a PMPMD selected aimag/soum;
- Supported and monitored by the PMPMD-selected specific service provider.

Art. 4: When a loan meets all the above-mentioned criteria, it is automatically included in the guaranteed portfolio.

#### Fee

Art. 5: The Bank will pay an upfront fee of 1% per annum calculated on the annual outstanding amount of each guaranteed loan. Upon receipt of the monthly list of new guaranteed loans, the Unit Manager issues a fee invoice to the Bank. The Bank transfers the relevant amount to the following bank account [name of the bank, IBAN and SWIFT codes of the subsidiary account] no later than 20 (twenty) days of receipt of the invoice. Failure to pay the fee in due time will invalidate the guarantee for these loans. No fee will be refunded by the PMPMD Guarantee Facility.

Art. 6: It is agreed that half of the annual fee should be borne by the Bank while the other half of the annual fee should be charged onto the borrower.

#### Duration

Art. 7: The portfolio guarantee provided by the PMPMD Guarantee Facility to the Bank will remain valid until the last guaranteed loan is repaid or the last accepted claim from the Bank has been paid out by the PMPMD Guarantee Facility, whichever comes last. The Bank can give up its access to the guarantee scheme at any time. However, the validity of the guarantee will remain as previously mentioned.

#### Risk coverage

Art. 8: The amount covered by the PMPMD Guarantee Facility includes: outstanding principal and contractual interest. However, the Bank can only claim unpaid contractual interest that were due during a period of 90 days before the loan has been called in.

Art. 9: The PMPMD Guarantee Facility is subsidiary liable, its liability is confined to a certain percentage of the loan losses made after deduction of proceedings from collateral and from personal guarantors.

Art. 10: The liability of both parties on the loan loss is determined by the following risk-sharing arrangement:

- For producers' and herders' groups (including those involved in the implementation of joint-ventures with micro- and small enterprises), the guarantee coverage is up to 60% after evaluation on a case by case basis by the selected commercial bank of the possible collateral producers' groups or herders' groups can provide against their loan [risk covered by the Bank is up to 40% of the loan loss];
- For women's groups, the guarantee coverage is up to 80% (and then decreasing for further loans on a case-by-case basis) after evaluation on a case by case basis by the Bank of the possible collateral women's groups can provide against their loan [risk covered by the Bank is up to 20% of the loan loss and then increasing for further loans].

#### Claim

Art. 11: The Bank can call in a claim when all the following conditions have happened:

- Arrears have reached 90 days
- The outstanding loan has been called in
- Defaulters have been appropriately warned
- A Court writ has been obtained
- Legal actions have been initiated to foreclose on collateral/guarantor and to recover loan debt

Art. 12: The Bank has 1 (one) month to introduce the case to the Court to obtain a Court writ. Failure to introduce the case in due time invalidates the guarantee for the loan concerned by that claim.

Art. 13: The Bank issues a monthly list of guaranteed loans for which the outstanding amount has been called in and the Court writ has been obtained during the month. The Bank indicates the total outstanding amount for each loan (see art. 8). This cover letter to which the monthly list is attached materializes the claim. This list, as part of the monthly reporting from the Bank to the PMPMD Guarantee Facility, shall be received by the Unit no later than 15 days after the previous month end. Failure to comply invalidates the guarantee for the loans that have been called in during that month. Attached to that list, are the following documents:

- Photocopy of the loan contract
- Photocopy of the latest updated loan statement of account at the date the branch calls in the loan
- Photocopy of the Court writ
- Summary of legal actions initiated
- Photocopy of all documents related to collateral provided by the borrower

Art. 14: Each photocopy and document submitted to the Unit shall be stamped and signed by a senior representative of the Bank.

Art. 15: Within 30 days from receipt of the monthly list, the PMPMD Guarantee Facility Technical Committee accepts or rejects the claim. Causes for rejecting claims include:

- The Branch did not pay the fees
- The loan has been called in after the time limit (art. 11)
- The case of introduce to the Court after the time limit (art. 12)
- The claim was presented beyond the agreed period (art. 13)
- The loan is not meeting the eligibility criteria to be included in the guaranteed portfolio
- The Court writ was not obtained
- The defaulter has not been appropriately warned (letters of reminder).

#### Pay-outs

Art. 16: The settlement of accepted claims is twofold:

- (a) An advance payment from the Unit is processed no later than 30 days after reception of the claim by the PMPMD Guarantee Facility. The advance payment is equal to 50% of the PMPMD Guarantee Facility liability calculated at that day.
- (b) The second and final payment is processed by the Unit 90 days after the first payment. The final payment is equal to the net liability of the PMPMD Guarantee Facility calculated at that day minus the advance payment. In case the advance payment exceeds the final liability of the PMPMD Guarantee Facility, the PMPMD Guarantee Facility Technical Committee issues a letter asking for a refund from the Bank. Within 15 days of receipt of this letter, the Bank transfers the relevant amount to the following PMPMD Guarantee Facility bank account [name of bank, IBAN and SWIFT codes of payout account].

Art. 17: In case of any recovery occurring after the final payment from the PMPMD Guarantee facility is transferred, proceeds are treated *pari passu* between the PMPMD Guarantee Facility and the Bank. The relevant amount owed to the PMPMD Guarantee Facility will be transferred by the Bank on the following PMPMD Guarantee Facility bank account [bank name, IBAN and SWIFT codes of payout account] on a quarterly basis.

Art. 18: Irrespective of the complete payment by the PMPMD Guarantee Facility of its liability, the Bank shall continue to recover any amount from the borrower or guarantee/collateral. The application of the write-off policy by the Bank shall not terminate its efforts.

#### Suspension and termination of the guarantee scheme

Art. 19: The following indicators are to be used as benchmarks to evaluate the performances of the Bank:

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▪ Repayment rate at 0 day:	%
▪ Portfolio at risk at 90 days:	%
▪ Loan loss rate:	%
▪ Write-off rate:	%

Art. 20: Should the above-mentioned indicators exceed for three consecutive months the following figures, the access to the PMPMD Guarantee Facility scheme would be suspended for new loans extended by the Bank until these indicators are back to their benchmark levels for at least three consecutive months. However, the guarantee will remain valid for the loans covered during the previous months. The PMPMD Guarantee Facility Technical Committee will duly inform the Bank and the relevant branch of the suspension in writing. The loans that the Bank might have extended during the period of the suspension are not retroactively covered by the PMPMD Guarantee Facility.

Art. 21: The PMPMD Guarantee Facility has the right to terminate this contract without need of legal action if the Bank fails to fulfill its obligations mentioned under this contract (absence of fee payment, reporting). However, the guarantee remains valid for the loans previously covered by the PMPMD Guarantee Facility until the last guaranteed loan is repaid by its borrower or the last claim has been paid by the PMPMD Guarantee Facility, whichever is last.

#### Maximum guaranteed portfolio

Art. 22: For the first year of this guarantee contract, the maximum outstanding guaranteed loan portfolio for the Bank shall not exceed ..... Written approval from the PMPMD Guarantee Facility Technical Committee will be sought by the Bank for the inclusion of new loans in the guaranteed portfolio resulting in exceeding the above-mentioned limit. Failure to comply invalidates the guarantee for the outstanding portfolio in excess.

Art. 23: At the end of each year the PMPMD Guarantee Facility Technical Committee shall revise these figures to take into account: (a) the growth of the Bank portfolio, (b) the projected demand for eligible loans, (c) the effective portfolio at risk ratio, quality portfolio performance, repayment and net loss rates of the Bank, and (d) the assessment of the capacities of the Bank staff to properly monitor and manage their microfinance portfolio. A letter issued by the PMPMD Guarantee Facility Technical Committee to the Bank will detail the revised limit for the year.

#### Controls

Art. 24: The Unit staff is entitled to access loan files of guaranteed borrowers.

#### Reporting

Art. 25: The Bank submits on a monthly basis the following documents:

- Statement of new loans included in the guaranteed portfolio (see Annex 1 section A)
- Aged balance of the guaranteed portfolio (see Annex 1 section B)
- Statement of new loans for which the outstanding amount has been called in (see Annex 1 section C)
- Set of indicators and portfolio quality analysis (see Annex 1 section D)

Art. 26: The Unit issues the following documents to the Bank:

- Monthly invoice for guarantee fee and statement of unpaid fees
- Letter stating that a claim submitted has been accepted/rejected (with reasons)
- Letter stating that the access to the guarantee scheme is either suspended or terminated and its consequences for the Bank
- Letter detailing the calculation of advance and final payments for accepted claims as well as requesting a refund from the branch in case the advance payment exceeds the liability of the PMPMD Guarantee Facility
- Conclusions of the Unit staff's controls on the guaranteed portfolio and claims submitted and appropriate corrective actions to be undertaken by the Bank.

Art. 27: Monthly reports should be received by the Unit no later than 10 days after the previous month end. Failure to comply will invalidate the access to the guarantee scheme (for new loans) or will result in the rejection of the claim for loans called in during that month.

#### Force majeure

Art. 28: Force majeure is defined as a situation beyond control of both contractors (natural disaster such as drought, dzud, earthquakes; war and acts of terrorism; civil strife; and pandemic). Under such circumstances, the



PMPMD Guarantee Facility shall not be called upon by the Bank.

Confidentiality

Art. 29: To the utmost possible, the existence of the PMPMD Guarantee Facility and its guarantee scheme should remain confidential and be confined to the Bank senior management and loan officer department.

Miscellaneous

Art. 30: In case this contract does not cover all issues then the Mongolian Civil Law is effective.

Art. 31: This contract consists of 32 articles and 1 appendix as an integral part of this contract.

Art. 32: This contract is made of ... original copies to work with.

Ulaanbaatar, ..... [date]

in .... copies

.....

[Signature, name and position]

Seal of the Institution

.....

[Signature, name and position]

Seal of the Institution

Appendix 1

N.B.: Each financial statement described hereinafter shows separately: (i) the banks' guaranteed loan portfolio with PMPMD beneficiaries, and (ii) the banks' guaranteed loan portfolio with other beneficiaries.

A. Statement of new loans included in the guaranteed portfolio

This monthly list should include the following indications:

- Borrower's name
- Loan amount
- Interest rate
- Total amount of loans extended
- Total loan to be paid back (principal and interest)
- Total amount to be paid back (principal and interest) for loan extended
- Loan duration
- Total amount of loans extended by loan duration (less than 6 months, from 6 to 12 months and above 12 months)
- Destination of loan proceeds (by activity financed)
- Total amount of loans by destination of loan proceeds

B. Ageing balance of the guaranteed portfolio

The monthly ageing balance includes each and every loan included in the guaranteed portfolio even those that are not showing any amount in arrears. The aged balance provides for each loan included in the guaranteed portfolio the following information:

- Borrower's name
- Loan amount, total loan to be paid back (principal and interest)
- Duration
- Date of first and last installments
- Total due to date
- Cumulated repayments to date (before loan is called in)
- Cumulated repayments to date excluding pay-outs from the PMPMD Guarantee Facility (after loan is called in)
- Penalty interest charged (up to day loan is called in)
- Outstanding amount at date (positioned in the correct time bracket [on time, from 1 to 30 days past due, from 31 to 60 days past due, from 61 to 90 days past due, from 91 to 120 days past due, from 121 to 180 days past due, from 181 to 240 days past due, and above 240 days])
- Pay-outs from the PMPMD Guarantee Facility
- Legal actions initiated by the Bank
- Loan provision in the Bank's books

Totals are also shown in the aged balance for cumulated amounts due to date, for cumulated repayments to date (before and after loans have been called in), for penalty interest, for outstanding amount to date, for pay-outs from the PMPMD Guarantee Facility and for the loan provision in the Bank's books.

C. Statement of loans for which outstanding amount has been called in

This monthly statement should indicate the following information:

- Borrower's name
- Loan amount,
- Total amount to be repaid
- Cumulated repayments to date
- Outstanding amount broken down between principal, interest and penalty interest
- Date of first installment missed
- Date of the loan being called in

D. Set of indicators and portfolio analysis

The set of indicators and the portfolio quality analysis consist of the following elements:

- Monthly calculation of the Bank portfolio at risk (PAR). The PAR is calculated as the ratio of total outstanding guaranteed loan portfolio showing arrears of more than 30 days plus outstanding amount of refinanced loans divided by the total outstanding guaranteed loan portfolio.
- Monthly calculation of the Bank recovery rate. The recovery rate is calculated as the ratio of amounts recovered after loans have been called in divided by the total outstanding loan amounts called in.
- Breakdown of (a) the outstanding guaranteed portfolio with no arrears and arrears of less than 30 days

and (b) the outstanding guaranteed portfolio showing arrears of more than 30 days by the following criteria:

- Gender
  - Type of activity financed
  - Loan duration (less than 6 months, from 7 to 12 months, from 13 to 24 months, from 25 to 36 months, above 36 months)
  - Geographical location
  - Loan officer
- Growth of the guaranteed portfolio from the previous month (in number, amount of loans and percentage).
  - Growth of the outstanding loan amount called in (in number, amount of loans and percentage).

## ANNEX 2 to NOTE 3

### ELEMENTS TO BE INCLUDED IN GUARANTEE AGREEMENT

1. In a Guarantee Agreement, which only concerns individual guarantee, the following elements have to be included:
  - Signatories: The Guarantee Agreement is signed by a senior Manager of each selected commercial bank and by the Chairperson of the PMPMD Guarantee Facility Technical Committee;
  - Beneficiaries: Individual guarantees are provided by the PMPMD Guarantee Facility to selected commercial banks for loans extended to SMEs (existing or to-be-created);
  - Eligibility criteria:
    - Terms and conditions of loans extended by commercial banks: (a) loan's ceiling is set at USD 300 000 or its equivalent in local currency; (b) interest rate equal to that charged by commercial banks when using SMEs Development Fund, JICA Two-Step Loan project or ADB Project resources; (c) in compliance with eligibility criteria set by the SMEs Development Fund, the JICA Two-Step-Loan project or the ADB project, and (d) activity financed within a PMPMD-supported value chain;
    - Conditions of the project to be financed: The project submitted to the commercial bank and the PMPMD Guarantee Facility will be reviewed and assessed by both institutions. Issuance of a guarantee will be subject to: (a) approval from the commercial bank to finance the project; (b) demonstrated profitability of the project to be financed, and (c) demonstrated repayment capacity of the borrower(s) whether with the only profit from the project to be financed or from a range of resources. The review and assessment process at the level of the PMPMD Guarantee Facility shall not exceed 10 working days;
    - Backward linkages: For loans extended in PMPMD Soums, (i) the SMEs must be located in PMPMD Soums or their suppliers (producers' groups and/or herders' groups) must be located in PMPMD Soums; (ii) the SMEs' investment to be financed must benefit to producers and/or herders' groups (increased number of producers and/or herders supplying the SME; increased purchase price paid to producers and/or herders; increased volume of production purchased from producers and/or herders), and (iii) SMEs are supported and monitored by the PMPMD-selected specific service provider. For loans extended in non-PMPMD Soums, the SMEs' investment to be financed must benefit to producers and/or herders' groups (increased number of producers and/or herders supplying the SME; increased purchase price paid to producers and/or herders; increased volume of production purchased from producers and/or herders);
  - Loan loss coverage: The PMPMD Guarantee Facility covers up to 50% of the outstanding amount of an eligible loan. The outstanding amount is defined by: outstanding principal and outstanding contractual interest due during a period of 90 days before the loan has been called in. The final PMPMD Guarantee Facility coverage will vary from one loan to another subject to the guarantees and collateral provided by the borrower against the loan extended by the commercial bank;
  - Procedures to call upon the PMPMD Guarantee Facility: The commercial bank can call in a claim when all the following conditions have happened: (a) arrears have reached 90 days; (b) the outstanding loan has been called in; (c) defaulters have been appropriately warned; (d) a Court writ has been obtained, and (e) legal actions have been initiated to foreclose on collateral/guarantor and to recover loan debt. The commercial bank has one month to introduce the case to the Court to obtain a Court writ. Failure to introduce the case in due time invalidates the guarantee for the loan concerned by that claim. The commercial bank issues a monthly list of guaranteed loans for which the outstanding amount has been called in and the Court writ has been obtained during the month. The commercial bank indicates the total outstanding amount for each loan. This cover letter to which the monthly list is attached materializes the claim. This list, as part of the monthly reporting from the Bank to the PMPMD Guarantee Facility, shall be received by the Unit no later than 15 days after the previous month end. Failure to comply invalidates the guarantee for the loans that have been called in during that month. Within 30 days from receipt of the monthly list, the PMPMD Guarantee Facility Technical Committee accepts or rejects the claim;
  - Modalities for calculating the PMPMD Guarantee Facility liability, pay-outs procedure and time schedule: The settlement of accepted claims is twofold: (i) an advance payment from the Unit is processed no later than 30 days after reception of the claim by the PMPMD Guarantee Facility. The advance payment is equal to 50% of the PMPMD Guarantee Facility liability calculated at that day, and (ii) the second and final payment is processed by the Unit 90 days after the first payment. The final payment is equal to the net liability of the PMPMD Guarantee Facility calculated at that day minus the advance payment. In case the advance payment exceeds the final liability of the PMPMD Guarantee Facility, the PMPMD Guarantee Facility Technical Committee issues a letter asking for a refund from the Bank. Within 15 days of receipt of this letter, the commercial bank transfers the relevant amount to the

PMPMD Guarantee Facility bank account. In case of any recovery occurring after the final payment from the PMPMD Guarantee facility is transferred, proceeds are treated pari passu between the PMPMD Guarantee Facility and the commercial bank. The relevant amount owed to the PMPMD Guarantee Facility will be transferred by the commercial bank on the PMPMD Guarantee Facility bank account on a quarterly basis. Irrespective of the complete payment by the PMPMD Guarantee Facility of its liability, the commercial bank shall continue to recover any amount from the borrower or guarantee/collateral. The application of the write-off policy by the commercial bank shall not terminate its efforts;

- Fee rate and calculation: The commercial bank will pay an upfront fee of 1% per annum calculated on the annual outstanding amount of each guaranteed loan. It is agreed that half of the annual fee should be borne by the commercial bank while the other half of the annual fee should be charged onto the borrower.
- Reporting: The Commercial bank submits on a monthly basis the following documents: (a) statement of new loans included in the guaranteed portfolio; (b) aged balance of the guaranteed portfolio; (c) statement of new loans for which the outstanding amount has been called in, and (d) set of indicators and portfolio quality analysis. The Unit issues the following documents to the commercial bank: (a) monthly invoice for guarantee fee and statement of unpaid fees; (b) letter stating that a claim submitted has been accepted or rejected (with reasons), and (c) letter detailing the calculation of advance and final payments for accepted claims as well as requesting a refund from the branch in case the advance payment exceeds the liability of the PMPMD Guarantee Facility;
- Duration of the Agreement: Each Guarantee Agreement is valid for 5 years and can be renewed. If the Guarantee Agreement is not renewed, guarantees extended prior to the date of the termination of the Guarantee Agreement will remain valid until the last guaranteed loan is entirely repaid by its borrower or the last claim has been paid by the PMPMD Guarantee Facility, whichever is last.

N. B.: Commercial banks should also issue the tables described in Appendix 1 to Annex 1 of Note 3 i.e. (a) statements of new loans benefiting from an individual guarantee; (b) ageing balance of loans benefiting from an individual guarantee; (c) statement of loans for which the outstanding amount has been called in, and (d) set of indicators and analysis.

### **ANNEX 3 to NOTE 3**

#### **CLAUSES TO BE INCLUDED IN AN INDIVIDUAL GUARANTEE**

1. The following clauses have to be included in a Letter of Guarantee:
  - Descriptions of the borrower, the loan size, the loan term, the repayment pattern and the interest rate charged on the loan;
  - Descriptions of the collateral and personal guarantees pledged by the borrower and other guarantors;
  - A description of how much is covered by the PMPMG Guarantee Facility (specifying the maximum number of months after the first missed instalment over which the bank can claim interest);
  - The duration of the guarantee (usually the same as the loan term);
  - A clause specifying that the PMPMD Guarantee Facility is subsidiary liable, its liability being confined to a percentage of the loan losses made after the deduction of proceedings from collateral and from personal guarantors;
  - A clause that specifies the fees to be paid by the bank to the PMPMD Guarantee Facility, the timing of the payments and the method of payment;
  - A clause that specifies that if the guarantee fee has not been paid, the guarantee is invalid;
  - A clause that specifies whether or not the PMPMD Guarantee Facility will refund fees paid by the bank for unexpired periods of coverage in case of termination of the guarantee contract due to claims or due to other reasons;
  - A clause that specifies the type of information the bank has to submit to the PMPMD Guarantee Facility on the guaranteed loan, as well as the reporting timeframes;
  - A clause that gives the PMPMD Guarantee Facility the right to access the loan files of the guaranteed borrower;
  - A clause that spells out that the bank is only allowed to restructure or reschedule the loan if there is prior authorization from the PMPMD Guarantee Facility;
  - A clause that specifies the conditions under which the bank can call in the claim;
  - A clause that limits the time period within which banks can call in claims;
  - A description of the documents that should accompany a claim;
  - The criteria for rejecting claims;
  - A clause that specifies the maximum number of days for the settlement or the rejection of the claim by the PMPMD Guarantee Facility;
  - A clause that specifies the method of payment for the settlement of claims;
  - A clause that specifies how proceeds from collateral will be divided between the bank and the PMPMD Guarantee Facility;
  - A clause that specifies a time period after the recovery of collateral, within which the bank is to transfer the amounts owed to the PMPMD Guarantee Facility;
  - A clause that specifies that the PMPMD Guarantee Facility, after paying a claim, is entitled as a new creditor to designate its own representative to jointly repossess, with the bank's representative, assets from the client and/or personal guarantors.

## ANNEX 4 to NOTE 3

### DETERMINATION OF AMOUNTS TO BE PAID BY THE PMPMD GUARANTEE FACILITY

Considering a loan extended by the Bank A for USD 70 000;  
Considering that the three monthly installments in arrears amount to USD 15 000;  
Considering that the outstanding loan amount is USD 25 000;  
Considering a risk-sharing arrangement of 50/50% between the PMPMD Guarantee Facility and the Bank A;  
Considering that USD 8 000 has been recovered by the Bank A between the first and the second and final payments of the PMPMD Guarantee Facility;  
Considering that an amount of USD 7 000 has been recovered by the Bank A after the second and final payment of the PMPMD Guarantee Facility

The different payments that would be processed by the Unit are as follows (timing is also indicated):

1<sup>st</sup> step. Determination of the maximum exposure of the PMPMD Guarantee Facility. The maximum exposure of the PMPMD Guarantee Facility is based on the risk-sharing arrangement and on the total amount due at the time of the calculation.

- Total amount due: USD 40 000<sup>17</sup>
- Maximum exposure of the GF: USD 20 000<sup>18</sup>

2<sup>nd</sup> step. First payment from the PMPMD Guarantee Facility. The first payment from the Unit should be processed within 30 days of the reception of the claim from the Bank A. The first payment would be equal to 50% of the calculated maximum exposure. It would equal to USD 10 000<sup>19</sup>.

3<sup>rd</sup> step. Payment of the second and final contribution of the PMPMD Guarantee Facility. The second payment is processed 90 days after the first one. It is based on the total amount due by the borrower at that date, on the risk-sharing agreement and takes into consideration the amount of the first payment processed by the Unit.

- Total amount due: USD 32 000<sup>20</sup>
- Maximum exposure of the PMPMD Guarantee Facility: USD 16 000<sup>21</sup>
- Amount of the second payment: USD 6 000<sup>22</sup>

4<sup>th</sup> step. Pari passu treatment of any recovery. Any amount recovered by Bank A after the second and final payment from the PMPMD Guarantee Facility is treated pari passu with consideration given to the effective percentage of coverage of losses.

- % of coverage by the PMPMD Guarantee Facility: 50%<sup>23</sup>
- Amount to be transferred by the Bank A to the PMPMD Guarantee Facility: USD 3 500<sup>24</sup>

If the calculation of the second payment is negative, meaning that the amount paid as first payment from the PMPMD Guarantee Facility exceeds its maximum exposure, then the Bank A would have to pay back the PMPMD Guarantee Facility a certain amount so that the total payment of the PMPMD Guarantee Facility is strictly equal to 50% of the total amount due. In the above-mentioned example, should the recoveries between first and second payment amount USD 23 000, the total amount due would amount USD 17 000 [40 000 - 23 000]; hence a maximum exposure of the PMPMD Guarantee Facility of USD 8 500. In that respect, the Bank A should transfer back to the PMPMD Guarantee Facility an amount of USD 1 250 [10 000 - 8 500 i.e. amount of the first payment minus maximum exposure calculated at the date of the second payment].

<sup>17</sup> i.e. 25 000 + 15 000

<sup>18</sup> i.e. 40 000 @ 50%

<sup>19</sup> i.e. 20 000 @ 50%

<sup>20</sup> i.e. 40 000 - 8 000 [total amount due calculated at step 1 minus amount recovered by Bank A]

<sup>21</sup> i.e. 32 000 @ 50%

<sup>22</sup> i.e. 16 000 - 10 000 [liability of the Guaranteeing Entity at the time of the second payment minus the amount already paid]

<sup>23</sup> i.e. 12 500 / (25 000 + 7 000) [total amount paid by the GF divided by the exposure of the Bank A and the deductible]

<sup>24</sup> i.e. 7 000 @ 39% [amount recovered after second and final payment from GF]

Several examples of calculations of 2<sup>nd</sup> payments

Parameters:	USD				
- Loan amount	70.000				
- Unpaid installments	15.000				
- Outstanding at day of all-in	25.000				
- Guarantee Facility Coverage	50%				
- First payment amount	50%				
<b>Variable:</b>					
- Amount recovered between 1st and 2nd payments					
- Amount recovered after 2nd payment					
		<b>1st case</b>	<b>2nd Case</b>	<b>3rd case</b>	<b>4th case</b>
a/ Determination of the G. F. maximum exposure		20.000	20.000	20.000	20.000
b/ First payment of the Guarantee Facility		10.000	10.000	10.000	10.000
c/ Second payment					
- Amount recovered		1.000	20.000	34.000	-
- New Guarantee Facility maximum liability		19.500	10.000	3.000	20.000
- Amount of second payment		9.500	-	n.a.	10.000
<b>In the first case:</b> The Guarantee Facility has to make a second pay-out the amount of which is USD 9 500.					
<b>In the second case:</b> The net final loss is USD 20 000 but the Guarantee Facility only covers USD 10 000. The final net liability of the Guarantee Facility equals the first payment made. No additional payment needed.					
<b>In the third case:</b> The net final loss is USD 6 000. The Guarantee Facility final exposure equals USD 3 000. Since the first payment amounted USD 10 000, the Bank has to pay back USD 7 000 to the Guarantee Facility.					
<b>In the fourth case:</b> No recovery was made between 1st and 2nd payment. Guarantee Facility final liability amounts to USD 20 000 and a second payment for USD 10 000 shall be made by the Guarantee Facility.					



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#### NOTE 4: REPORTING

1. The reporting aspect has to be considered at different levels: a/ reporting from selected commercial banks; b/ internal reporting within the Unit, and c/ reporting from the Unit to external institutions.

Reporting from selected commercial banks.

2. Three reports are expected from each selected commercial bank: a/ Report on new loans; b/ Report on the guaranteed loan portfolio situation, and c/ Report on default loans covered by the PMPMD Guarantee Facility. Each report issued is stamped and signed by a senior representative from the selected commercial bank.

3. Report on new loans. Each selected commercial bank issues on a monthly basis a report in the form of an Excel sheet detailing all eligible loans extended during the past month. The report is divided into two sections: (a) loans that are benefiting from an individual guarantee, and (b) loans included in the portfolio guarantee scheme. Irrespective of the type of guarantee extended, the report includes the following information: a/ Identification number; b/ name of the borrowing entity; c/ location of the activity financed; d/ type of activity financed; e/ purpose of the loan; f/ date of the loan; g/ loan amount; h/ interest rate; i/ duration and maturity (including eventual grace period); j/ repayment schedule, and k/ brief description of guarantee/collateral provided by the borrowing entity.

4. This report is issued by each branch and point of services of each selected commercial bank, sent to and consolidated at its Headquarter. Headquarter sends the report to the Unit Manager no later than 10 days after month's end. In the case of a portfolio guarantee, any loan not included in the proper monthly report will not be considered by the PMPMD Guarantee Facility even if included in a subsequent report.

5. Report on each guaranteed loan's situation. This report details the financial situation of each loan having benefited from a guarantee, whether a portfolio or an individual one. Information to be included in the report include: a/ identification number of the loan; b/ name of the borrower; c/ activity financed; d/ location of the activity financed; e/ initial loan amount; f/ total amount due at date; g/ total repayments at date; h/ undue amount; i/ amount in arrears, and j/ number of days since first missed installment. The report separates loans that have been rescheduled from the other loans. The report also separates loans having benefited from an individual guarantees and those being included in the portfolio guarantee, as well as it separates loans to PMPMD beneficiaries from those extended to other beneficiaries.

6. Monthly reports are issued by each branch and points of services of each selected commercial bank, sent to and consolidated at its Headquarter. Headquarter sends reports to the Unit Manager no later than 10 days after month's end.

7. Report on default loans covered by the PMPMD Guarantee Facility. This specific report details each loan for which the PMPMD Guarantee Facility has been called upon by a selected commercial bank. Irrespective of the type of guarantee extended by the PMPMD Guarantee Facility, information to be included in the report are: a/ identification number of the loan; b/ name of the borrower; c/ location of the activity; d/ activity financed; e/ initial amount of the loan; f/ amounts due to date [based on the contract]; g/ amounts paid to date [broken down between amounts paid before the loan has been called in and after the loan has been called in]; h/ outstanding amount due at date; i/ number of days since first missed installment; j/ date of the first missed installment; k/ date the outstanding loan amount has been called in; l/ date of the Court writ; m/ guarantee and collateral provided by the defaulter, and n/ their expected value. The report also indicates whether the loan has been rescheduled or not.

8. The report separates: (i) new loans for which the PMPMD Guarantee Facility is called upon (i.e. outstanding amount has been called in and Court writ has been obtained during the month), and (ii) other loans for which the procedure is on-going. Failure to include a loan in the section 'new loans' of the report invalidates the guarantee for that particular loan.

9. Reports also separate: (i) loans under a portfolio guarantee scheme or benefiting from an individual guarantee, and (ii) loans extended to PMPMD beneficiaries and to other beneficiaries.

10. Monthly reports are issued by each branch or point of services of each selected commercial bank, sent to and consolidated at its Headquarter. Headquarter sends the report to the PMPMD Unit Manager no later than 10 days after month's end. In addition, each selected commercial bank attaches a summary on the progress of legal actions initiated detailed for each default loan.

Internal reporting within the Unit.

11. The Unit Manager issues the following seven reports for its Technical Committee: a/ Consolidated statement on new guaranteed loans; b/ Consolidated guaranteed loans' situation; c/ Liability exposure; d/ Consolidated default loans; e/ Resources, commitments and leverage, and f/ Financial statements.

12. Each report will separate: (i) loans extended to PMPMD Beneficiaries and those extended to other beneficiaries, and (ii) loans benefiting from an individual guarantee and those included in a portfolio guarantee scheme.

13. Consolidated statement on new guaranteed loans. The Unit Manager consolidates monthly reports submitted by each selected commercial bank in one single table detailing new loans included in the PMPMD Guarantee Facility (individual guarantee and portfolio guarantee; PMPMD beneficiaries and other beneficiaries) as well as loans excluded from the portfolio guarantee scheme for absence of compliance with eligibility criteria. In addition, the Unit Manager attaches reports related to his/her monthly controls on loans included into the loan guaranteed portfolio of each selected commercial bank. This report is submitted to the PMPMD Guarantee Facility Technical Committee no later than 15 days after month's end.

14. Consolidated guaranteed loans' situation. The Unit Manager consolidates monthly portfolio situations issued by each selected commercial bank in one single table. Information included in the consolidated situation, presented for each selected commercial bank separately, are: a/ name of borrowing entity; b/ activity financed; c/ location of activity; d/ purpose of the loan; e/ total amount due at date; f/ total amount repaid at date; g/ undue amount, and h/ amount in arrears per 30 days bracket. Report separates rescheduled loans from other loans for each participating financial institution. Report also separates loans having benefited from an individual guarantee from those included in a portfolio guarantee scheme, as well as it separates PMPMD beneficiaries from other beneficiaries. The situation is submitted to the PMPMD Guarantee Facility Technical Committee no later than 15 days after month's end.

15. Liability exposure. On a monthly basis, the PMPMD Guarantee Facility Technical Committee needs to know the PMPMD Guarantee Facility liability exposure. For each selected commercial bank, the PMPMD Guarantee Facility exposure is determined by: a/ its outstanding guaranteed loan portfolio; b/ its PAR 90 days; c/ its current loan loss ratio, and d/ its risk-sharing agreement.

16. A table will compare the amount of PMPMD Guarantee Facility resources allocated for guarantees and its potential liability. Under no circumstance should the liability exposure become greater than the amount of allocated resources. The PMPMD Guarantee Facility maximum liability exposure is determined as follows:

- Amount of the outstanding guaranteed loan portfolio per selected commercial bank as A;
- % of coverage by the PMPMD Guarantee Facility as B;
- PAR at 90 days as C;
- Loan loss ratio as D;
- Maximum liability exposure is equal to:  $A*B*C*D^{25}$ .

17. The calculation is done for each financial institution separately and then consolidated. The calculation of the liability exposure enables the PMPMD Guarantee Facility Technical Committee to monitor the PMPMD Guarantee Facility exposure with regards to the performance of each selected commercial bank (repayment rate, loan loss rate, PAR at 90 days). Should these indicators worsen for any given financial institution, the PMPMD Guarantee Facility Technical Committee can reduce the size of its loan portfolio guaranteed (by stopping the inclusion of new loans in the PMPMD Guarantee Facility) or its leverage multiplier.

18. The liability exposure is determined by the Unit Manager and submitted to the PMPMD Guarantee Facility Technical Committee no later than 15 days after month's end.

19. In addition, for the portfolio guarantee scheme, indicators included in the determination of the liability exposure will also enable the monitoring of the eligibility criteria used to select commercial banks and more specifically to check if these indicators are still within the limit defined in the Guarantee Contract as benchmarks for its suspension. In that respect, the Unit Manager issues a simple table 'Reports on Benchmarks' showing for each participating financial institution, the value of each indicator as defined in the Guarantee Contract and their value at present date. Should the present value be above the limit, the Unit Manager would also indicate the number of months since the value has been above limits (above 3 consecutive months, the Guarantee Contract is suspended until the indicators are back within the defined limits for at least 3 consecutive months). This report is submitted to the PMPMD Guarantee Facility Technical Committee together with the monthly Liability Exposure table.

20. Consolidated default loans. The Unit Manager consolidates monthly reports on default loans issued by each selected commercial bank. This report determines the PMPMD Guarantee Facility maximum liability for loans for which the guarantee has been called upon (it is distinct from the maximum liability exposure described previously because it refers only to effective claims from banks). The consolidated report includes the following indications, for each bank separately: a/ name of borrowers; b/ activity financed; c/ location of activity; d/ initial amount of loan; e/ amount due to date [based on the contract]; f/ amount paid when the outstanding loan has been called in; g/ outstanding amount; h/ date of first missed installment; i/ date of outstanding loan called in; j/ amount paid since outstanding loan has been called in, and k/ outstanding amount at date. The report also separates: (i) loans benefiting from an individual guarantee and those included in a portfolio guarantee scheme,

<sup>25</sup> Considering an outstanding portfolio for bank A of MNT 4 million and for bank B of MNT 7 million; a PAR at 90 days for banks A and B of 3% and 11% respectively; a loan loss ratio of 30% et 70% respectively, and a guarantee coverage of 70%, the maximum liability exposure is equal to: Bank A: MNT 25 200; Bank B: MNT 377 300 and globally MNT 402 500. If the PMPMD Guarantee Facility resources allocated to issue guarantees amount to MNT 500 000 a risk exists and actions should be taken by the PMPMD Guarantee Facility Technical Committee to limit its exposure (especially vis-à-vis Bank B). If the PMPMD Guarantee Facility resources allocated amount to MNT 1 million, the problem is limited and only performances of Bank B should be carefully monitored.

and (ii) loans extended to PMPMD beneficiaries and those extended to other beneficiaries. The report is submitted to the PMPMD Guarantee Facility Technical Committee no later than 15 days after month's end.

21. Resources, commitments and leverage. The Unit Manager elaborates a table detailing the following parameters: a/ Resources i.e. changes in the financial resources position of the PMPMD Guarantee Facility between beginning and end of the period under review (generally a calendar year or a quarter). Changes can derive from capitalization of PMPMD Guarantee Facility profit, from additional resources provided by public or private sector, and from pay-outs following claims submitted by selected commercial banks; b/ Commitments i.e. changes in resources committed for guarantee purposes between beginning and end of the period under review (year/quarter), and c/ Leverage i.e. changes in the amount of the outstanding loan portfolio effectively covered by the PMPMD Guarantee Facility between beginning and end of the period under review (year/quarter). The report is submitted to the PMPMD Guarantee Facility Technical Committee no later than 15 days after quarter/year's end.

22. Financial statements. A monthly PMPMD Guarantee Facility specific balance sheet for the activity of the past month and cumulated since January 1<sup>st</sup> includes: a/ income deriving from investment of PMPMD Guarantee Facility resources; b/ fees paid by selected commercial banks; c/ operating expenses; d/ result before tax; e/ income tax (if any), and f/ net profit after tax. Financial statements are prepared by the Unit Manager and submitted to the PMPMD Guarantee Facility Technical Committee for approval as well as to the PMPMD Steering Committee (which will submit it to the PMPMD contributors i.e. Government of Mongolia and IFAD).

External reporting. External reports issued by the Unit include: a/ Memorandum of Understanding; b/ Guarantee Contracts (for the portfolio guarantee scheme); c/ Guarantee Agreements (for the individual guarantee scheme); d/ Individual Guarantee Contract; e/ Invoice for fee; f/ Letter on rejected loans from the PMPMD Guarantee Facility; g/ Letter of acceptance/rejection of a claim, and h/ Request for the reimbursement of undue amounts. External reports are to be sent to selected commercial banks, Government of Mongolia and IFAD depending on their nature.

23. Memorandum of Understanding. A Memorandum of Understanding (MoU) will be signed between the Ministry of Finance, the Ministry of Industry and Agriculture, and the Ministry of Labor. This MoU will detail the coordination and reciprocal commitments, duties and responsibilities between the PMPMD Guarantee Facility and the different funds (SMEs Development Fund, Employment generation Fund) and projects (JICA Two-Step Loan project, ADB Project). The MoU will be signed prior to the effective establishment of the Unit.

24. Guarantee Contract. The PMPMD Guarantee Facility Technical Committee signs together with the senior management of each selected commercial bank a Guarantee Contract detailing the role and responsibilities of each signatory as far as the portfolio guarantee scheme is concerned.

25. Guarantee Agreement. The PMPMD Guarantee Facility Technical Committee signs together with the senior management of each selected commercial bank a Guarantee Agreement detailing the role and responsibilities of each signatory as far as individual guarantees are concerned.

26. Individual Guarantee Contract. The PMPMD Guarantee Facility Technical Committee issues an individual guarantee contract for each loan extended by a selected commercial bank and guaranteed by the PMPMD Guarantee Facility.

27. Invoice for fee. The Unit Manager submits an invoice for fee to each selected commercial bank.

28. Letter listing rejected loans from the PMPMD Guarantee Facility portfolio guarantee scheme. After the Unit's staff has reviewed the eligibility criteria of randomly selected loans for each selected commercial bank, the Unit Manager issues a 'Letter listing rejected loans from the PMPMD Guarantee Facility portfolio guarantee scheme' to each selected commercial bank detailing loans excluded from the PMPMD Guarantee Facility portfolio guarantee scheme (and reasons for their exclusion). Only loans that do not comply with the eligibility criteria and that have been verified by Unit staff can be excluded.

29. Letter of admission/rejection of a claim. The PMPMD Guarantee Facility Technical Committee issues a 'Letter of admission/rejection of the claim'. In case of admission, the letter details the amount considered as the basis for the calculation of the PMPMD Guarantee Facility coverage, the amount of the first payment, and the time schedule for the second amount. In case of rejection, the letter details the reasons.

30. Request for payment. The PMPMD Guarantee Facility Technical Committee issues, to the commercial bank where the PMPMD Guarantee Facility resources are deposited, a 'Request for payment' for each payment to be made to the selected commercial bank as far as payments for claims are concerned.

31. Request for reimbursement of undue amount. If the amount of the first payment exceeds the PMPMD Guarantee Facility final liability when calculating the second and final payment, the PMPMD Guarantee Facility Technical Committee issues a 'Request for Reimbursement of Undue Amount' submitted to the selected commercial bank.

32. Letter of suspension of the access to the PMPMD Guarantee Facility. With regards to the portfolio guarantee scheme, in case selected main indicators are no longer below the benchmarks indicated in the

Guarantee Contract for three consecutive months, the access to the PMPMD Guarantee Facility is suspended. The PMPMD Guarantee Facility Technical Committee will inform the management of the selected commercial bank by issuing a 'letter of suspension of the access to the PMPMD Guarantee Facility'. The access will resume only when all benchmarks are back within the agreed limits for three consecutive months (the Technical Committee will issue a specific letter stipulating that the selected commercial bank has now recovered its access to the PMPMD Guarantee Facility). However, during the period of the suspension all guarantees previously extended will remain valid. Loans that the selected commercial bank might have extended during the period of suspension will not be retroactively covered by the PMPMD Guarantee Facility.

## **NOTE 5: MANAGEMENT OF FINANCIAL RESOURCES**

1. PMPMD Guarantee Facility resources are deposited in a commercial bank acceptable to IFAD and to the Government of Mongolia. The PMPMD Guarantee Facility investment policy is the responsibility of the PMPMD Guarantee Facility Technical Committee. Typically, the PMPMD Guarantee Facility resources are to be invested in different secured financial instruments with different maturity to match their various purposes. The PMPMD Guarantee Facility investment plan could be as follows:

- 80% of PMPMD Guarantee Facility resources could be invested in long-term secured financial instruments such as Treasury Bills/Bonds denominated in local currency;
- 10% of PMPMD Guarantee Facility resources could be invested in the form of medium-term deposit such as 2-year renewable time-deposit denominated in local currency. This deposit would be used to pay out claims issued by selected commercial banks; hence its liquidity. Since first claims are not expected to arise in the short-term, the deposit could be made on a medium-term renewable basis;
- 10% of PMPMD Guarantee Facility resources could be deposited on a current account bearing interest. During the first year of the PMPMD Guarantee Facility operations this deposit will be used to cover part of its operating expenses. In subsequent years, interests income earned from all financial investments (T-bills/bonds, medium-term deposits and current account deposit) would be deposited in the current account. Funds deposited will be used to: a/ cover the PMPMD Guarantee Facility operating expenses, and b/ pay-out claims accepted. Pay-outs will be processed firstly from the current account and then from the medium-term deposit. The Unit Manager will ensure that the current account has a sufficient balance to cover the operating expenses for the rest of the year to come.

2. The Unit Manager would prepare a monthly financial report for the PMPMD Guarantee Facility Technical Committee detailing the financial income generated by various investments, as well as monthly changes in the financial position of the PMPMD Guarantee Facility. At the end of each fiscal year, the Unit Manager would summarize the financial income generated by each investment and would propose, in light with the latest trend for interest rates, to modify the PMPMD Guarantee Facility investment policy (either the bank selected, or the investment pattern). The PMPMD Guarantee Facility Technical Committee will be vested with the responsibility to implement the necessary changes. Any change concerning the commercial bank in which the PMPMD Guarantee Facility resources are deposited has to be approved by IFAD.

**NOTE 6: ACCOUNTING, PERFORMANCE INDICATORS, MONITORING AND EVALUATION**

**Accounting**

1. The PMPMD Guarantee Facility accounting is simple as most of its operations are off-balance sheet. The PMPMD Guarantee Facility accounting is carried out by the Unit Manager. Expenses (operating expenses) and revenues (financial income from investments of the PMPMD Guarantee Facility resources and fees paid by selected commercial banks) are recorded in the PMPMD Guarantee Facility books on the basis of invoices and other documents submitted by the Unit Manager. It also records the subsidy provided by the PMPMD to cover part of the PMPMD Guarantee Facility operating costs. It establishes monthly, quarterly and annual financial statements, the last ones certified by the auditor. It also undertakes controls, checks and balances and reconciles bank statements.

2. The core business of the PMPMD Guarantee Facility is to issue guarantees the total amount of which largely exceeds its financial resources (leverage multiplier effect). Guarantees issued by the PMPMD Guarantee Facility are recorded off-balance sheet and the Unit Manager is responsible for a close monitoring of the amount of guarantees issued, the funds available for additional guarantees to be issued, the leverage multiplier for each selected commercial bank and the risk exposure of the PMPMD Guarantee Facility considering updated PARs and loan loss ratio.

3. The following table illustrates the monthly calculation that the Unit Manager has to carry out in order to monitor its guarantee portfolio. The table shows each selected commercial bank separately. Part A determines: a/ the outstanding portfolio guaranteed (data to be found in the monthly report on portfolio guaranteed issued by each selected commercial bank); b/ the leverage multiplier (as a result of the outstanding portfolio guaranteed divided by the resources allocated), and c/ the amount of resources available for further guarantees (as the difference between the PMPMD Guarantee Facility total resources allocated to issue guarantees and the current amount allocated). The first section of Part A include data related to loans extended to PMPMD beneficiaries, the second section those related to loans extended to other beneficiaries, while the third section include consolidated data (including both PMPMD beneficiaries and other beneficiaries).

4. Part B determines the maximum liability exposure of the PMPMD Guarantee Facility with each selected commercial bank (broken down between portfolio with PMPMD beneficiaries and other beneficiaries) as well as globally. The Unit Manager updates on a monthly basis the following parameters: a/ PAR at 90 days, and b/ Loan loss rate for each financial institution. These parameters are provided each month by each selected commercial bank.

Table 1: Monitoring of PMPMD guarantees issued and resources.

Parameters	Participating Financial Institutions					Total
	A	B	C	D	E	
<b>Follow-up on guarantees issued</b>						
- Outstanding portfolio guaranteed						I
- Resources allocated						II
- Leverage multiplier						III = I/II
- Total resources allocated to issue guarantees						IV
- Amount available for further guarantee						V = IV-II
<b>Maximum Liability Exposure (MLE)</b>						
- PAR at 90 days	a					
- Loan loss rate	b					
- % of GF coverage	c					
- Maximum Liability Exposure	MLE = I(A)*a%*b%*c%					∑MLE
- % of total resources allocated						= ∑MLE/II%

5. This table would also enable the Unit Manager to check that parameters are still within the limits defined in the Guarantee Contract as benchmarks for its possible suspension.

**Monitoring and Evaluation.**

6. Performance indicators. The PMPMD Guarantee Facility performances are monitored and evaluated through the following set of indicators:

- Number of participating commercial banks; [at least 50% of all commercial banks participating in the SMEs Development Fund, Two-Step Loan Project, ADB Project, and Employment Generation Project]
- Amount of outstanding portfolio guaranteed (individual guarantees/portfolio guarantees; PMPMD

beneficiaries/other beneficiaries; by participating commercial bank, and global); [cumulated target when fully operational: USD 8 million]

- Leverage multiplier (individual guarantees/portfolio guarantees; PMPMD beneficiaries/other beneficiaries; by participating commercial bank, and global): a/ against funds allocated and b/ against total funds; [target when fully operational: At least 3]
- Number of loans presented to the PMPMD Guarantee Facility (global, by participating commercial bank, by aimag, by value chain - individual guarantee/portfolio guarantee; PMPMD beneficiaries/other beneficiaries);
- Number of loans refused (global, by participating commercial bank, by aimag, by value chain - individual guarantee/portfolio guarantee; PMPMD beneficiaries/other beneficiaries); [target of less than 1%]
- Number of loans accepted (global, by participating commercial bank, by aimag, by value chain - individual guarantee/portfolio guarantee; PMPMD beneficiaries/other beneficiaries);
- Number of loan beneficiaries admitted in each guarantee scheme (by gender);
- Number and amount of loans financed through the PMPMD credit line (by aimag, by value chain);
- Outstanding loan portfolio financed through the PMPMD credit line;
- Repayment rate and Portfolio at risk (0 and 90 days);
- Loan loss rate (for loans extended through the PMPMD credit line);
- Pay-outs (for loans extended through the PMPMD credit line);
- Outstanding amount for which the PMPMD Guarantee Facility is called upon (global, by participating commercial bank, by aimag, by value chain - individual guarantee/portfolio guarantee; PMPMD beneficiaries/other beneficiaries); [target should be less than the PAR 90 days stated as benchmark in the Guarantee Contract and less than 5%]
- Number of claims rejected (global, by participating commercial bank, by aimag, by value chain - individual guarantee/portfolio guarantee; PMPMD beneficiaries/other beneficiaries); [less than 5% of claims presented are rejected]
- Number of claims approved (global, by participating commercial bank, by aimag, by value chain - individual guarantee/portfolio guarantee; PMPMD beneficiaries/other beneficiaries);
- Amount of claims paid (individual/portfolio guarantee; PMPMD beneficiaries/other beneficiaries);
- Net profit before tax;
- Maximum liability exposure;
- % of claim payment against initial loan amount.

7. This set of indicators would be followed up on a monthly basis by the Unit Manager who would collect the necessary information from the monthly reports issued by each selected commercial bank. During its monthly controls on new loans to be admitted in the guaranteed portfolio (portfolio guarantee scheme), the Unit Manager would have the opportunity to assess the indicators provided by each selected commercial bank.

8. Impact indicators. The PMPMD Guarantee Facility impact on PMPMD beneficiaries will be monitored and evaluated through the following indicators:

- a/ Impact on the income of beneficiaries. Beneficiaries include: (i) SMEs through the increase/decrease in its net margin and net operating profit before and after the guaranteed loan; (ii) producers', herders', and farmers' groups members through the increase/decrease of their production (in volume), increase/decrease of the income, increase/decrease of their production costs, and increase/decrease of the net profit/revenue, and (iii) members of women's groups through the additional revenue generate by their activity.
- b/ Breakdown of added value and margin between value chain stakeholders through the determination of a value chain average pricing, including all direct and indirect stakeholders with a comparison before and after access to the PMPMD guarantee. The average pricing will then be broken down between operating costs and margin at each level of the value chain.
- c/ Impact on the sustainability of linkages between value chain stakeholders through the number of forward contracts and other specific commercial arrangements signed between SMEs and producers', herders', and farmers' groups.
- d/ Impact on poverty through the evaluation of the number of poor and very poor households on the lists of PMPMD-selected soums governors included in the contractual arrangements above-mentioned and the number of poor and very poor households included in women's groups having benefited from guaranteed loans.

9. In order to quantify the PMPMD Guarantee Facility impact, each service provider together with the PMPMD PMU M&E officer will carry out the following surveys: (i) baseline survey at project inception; (ii) annual surveys, and (iii) completion survey. These surveys will aim at evaluating the different impact above-mentioned on a sample of randomly selected PMPMD beneficiaries. The sample will be based on: aimag; activity and value chain, and gender. Tentatively, a sample of about 30 households could be envisaged.

10. Each service provider will collect baseline and annual data necessary to document each indicator and

will submit them to the PMPMD PMU M&E officer who will analyze the data and the yearly changes. The PMPMD Guarantee Facility impact assessment is a dynamic one as changes will be measured on the same sample during the whole duration of the project and also compared to a specific sample of reference composed of households which have not benefited from the PMPMD Guarantee scheme. It will enable the project to ensure that its activities are not generating epiphenomenal impact but rather a sustained one for all stakeholders in the value chain.



## NOTE 7: LENDING ACTIVITY

1. As previously mentioned, different financial instruments are being promoted by different financial institutions:
  - Loans are extended by commercial banks from resources providing either from governmental funds (SMEs Development Fund or Employment Generation Fund) or from donors-funded projects (Two-Step loan project or Asian Development Bank project);
  - Guarantees are extended to commercial banks lending to PMPMD beneficiaries and other beneficiaries by the PMPMD Guarantee Facility.
2. Despite the signature of the Memorandum of Understanding between the Ministry of Finance, the Ministry of Industry and Agriculture, and the Ministry of Labor, related to the provision by the Government of Mongolia of sufficient financial resources at the level of the Small and Medium Enterprises Development Fund and the Employment Generation Fund to cover the demand for loans emanating for the PMPMD target beneficiaries, it is expected that:
  - a/ In soums considered under the PMPMD, credit demand emanating from PMPMD-supported women's groups will largely exceed resources allocated by the Employment Generation Fund to commercial banks for on-lending purposes;
  - b/ A large proportion of PMPMD-supported non-registered producers' and herders' groups will not benefit from an access to the Small and Medium Enterprises Development Fund and other donors-funded projects (such as the JICA-funded Two-Step Loan Project), and consequently from the PMPMD Guarantee Facility due to the absence of registration.
3. Consequently, producers' and herders' groups as well as women's groups will only access loan funds at market interest rate which are clearly unaffordable for a sustainable activity.
4. To facilitate access of producers' and herders' groups to loan funds at a sustainable interest rate and consequently to the PMPMD Guarantee Facility, the following mechanism will be implemented:
  - The selected service provider responsible for the value chain development and support would promote the registration of producers' and herders' groups as either a cooperative or as a partnership. This registration will enable each producers' and herders' group to access loans at a favorable interest rate and consequently to access the PMPMD Guarantee Facility.
5. To facilitate access of women's groups to loan funds at a sustainable interest rate and consequently to the PMPMD Guarantee Facility, the following mechanism will be implemented:
  - An amount equal to USD 0.5 million is allocated under the PMPMD to complement the resources of the Employment Generation Fund in the PMPMD-selected Soums;
  - This amount will be deposited at selected commercial banks on the basis of a Subsidiary Loan Agreement to be signed between the Ministry of Finance and each selected commercial bank;
  - Each amount is deposited in the form of long-term credit lines, the duration of which does not exceed 10 years and will bear an interest rate of maximum 1.5% per year;
  - This credit line, with loan repayments forming a revolving fund with each selected commercial bank, would be used by to finance PMPMD's women's groups under the same terms and conditions as those used by banks when using EGF resources to finance eligible beneficiaries (interest rate at 0.875% per month);
  - Based on the consolidation of all loan requests from PMPMD beneficiaries, their risk assessment and the determination of available EGF resources, riskier investments would be financed through EGF resources and would benefit from the PMPMD's guarantee, while less risky investments would be financed from PMPMD's credit line;
  - In addition to the Subsidiary Loan Agreement, a Memorandum of Understanding will be signed between each selected commercial bank and the PMPMD Guarantee Facility Technical Committee.
6. Since most of women will be starting an income generating activity, it is premature to envisage assisting them to form registered entities such as cooperatives and/or partnerships. On the other hand, access to the Employment Generation Fund resources is restricted to legalized groups or to individuals (self-help groups are not eligible to these funds in addition to not being favored by commercial banks). In that respect, the following borrowing methodology will be promoted by the service provider responsible for the micro-enterprises and micro-businesses development:
  - Loans can be extended to each group leader. The group leader will consolidate the financial needs from all group members and will submit one single consolidated loan application. Each group member will be joint-liaible;

- Loans can be extended to each activity leader. In each group, in most cases, several activities will be implemented and developed by its members. The activity leader (i.e. the most experienced woman) will consolidate the financial needs from women undertaking the same activity and will submit one consolidated loan application to the commercial bank. Each woman undertaking the same activity will be joint-liaible;
  - Gradually, with gained experience, the service provider will assist successful groups to register as a legal entity (cooperatives or partnerships); hence having the possibility to access funds from the SMEs Development Fund.
7. The risk on loans extended from the credit line provided by the PMPMD to commercial banks in complement of resources from the Employment Generation Fund will be shared between commercial banks and the MoF. When banks are using PMPMD's resources, they would bear a percentage of the final loss equivalent to their share of risk/loss under the guarantee coverage offered by the PMPMD's Guarantee Facility for similar investments.
8. The implementation of this financing mechanism is as follows:
- On a yearly basis, each selected commercial bank issues a request for a credit line using the PMPMD resources, the amount of which is equal to the total amount of un-financed loans to be extended to PMPMD beneficiaries. This request mechanism will be in force until complete allocation of the USD 0.5 million PMPMD resources;
  - Requests are reviewed by the Unit Manager and submitted to the PMPMD Guarantee Facility Technical Committee for approval;
  - Once approved, a Subsidiary Loan Agreement and a Memorandum of Understanding are signed between (i) the MoF and each selected commercial bank, and (ii) the PMPMD Guarantee Facility Technical Committee and each selected commercial bank respectively. Funds are deposited in a specific account opened in the book of the bank in the name of the PMPMD;
  - Loans are extended to PMPMD-supported women's groups by selected commercial banks according to their own procedures from the PMPMD resources deposited;
  - At maturity of the loan, commercial banks pay back the amount of the credit line plus related contractual interest minus the share of loan losses to be borne by the MoF;
  - If any amount is recovered by commercial banks after the repayment of the credit line to the MoF, this amount will be treated *pari passu* between the bank and the MoF.
9. Besides the normal documents to be submitted to the PMPMD Guarantee Facility on its guaranteed loan portfolio, each commercial bank benefiting from a credit line from the MoF under the PMPMD will submit the additional following documents:
- Outstanding loan portfolio extended by commercial banks from the PMPMD resources;
  - For each defaulting loan/group: loan contract; statement of account detailing outstanding and past due amounts; determination of the loan loss; maximum liability exposure to be borne by the MoF and by the commercial bank, and a summary of the actions undertaken by the commercial bank to foreclose on amounts due;
  - At repayment of the credit line to the MoF, commercial banks will elaborate a document showing: initial amount of each credit line received; contractual interests on each credit line received; individualized loan loss to be borne by the MoF and by commercial banks, and final amount to be repaid by commercial banks to the MoF.
10. Reports and financial statements are submitted to the Unit Manager for review and approval. The Manager consolidates the data from all selected commercial banks and submits a monthly consolidated financial statement to the PMPMD Guarantee Facility Technical Committee.
11. Prior to sign the Memorandum of Understanding with a commercial bank, the PMPMD PMU or the Unit will issue a Request for Expression of Interest to benefit from a PMPMD credit line to commercial banks. Commercial banks interested by this credit line will apply to the Unit and will attach the following information:
- Audited financial statements for the last three years;
  - Quarterly calculation for the past 12 months of:
    - Repayment rate at 0 day and 90 days
    - Portfolio at risk at 0 day and 90 days
    - Loan loss rate
    - Non-performing portfolio over total portfolio
    - Write-off ratio (loan written-off over total portfolio and loan written-off over total non-performing

- portfolio)
  - Provision for loans over non-performing portfolio
  - Return on equity
  - Net operating margin and profit before depreciation and tax
  - Manual of procedures.
12. The Unit Manager (or the external consultant) will review these information. For those banks that are complying with the Mongol Bank regulations, a simple due diligence exercise will then be undertaken by the Unit or by an external consultant contracted by the PMPMD PMU. The due diligence exercise will focus on the following aspects:
- Assessment of loan applications;
  - Loan portfolio follow-up procedures and loan recovery;
  - Updating of loan portfolio performance indicators (Portfolio at Risk, repayment rate, default rate, loan loss rate);
  - Overall procedures for loan approval with level of authorities at branch and HQ levels and internal entities vested with that responsibility (loan officer, loan supervisor, branch manager, credit committee at branch or HQ level);
  - Management Information System for loan portfolio.
13. Since commercial banks have already been assessed by development funds (Employment Generation Fund and SMEs Development Fund) as well as by projects, the Unit Manager or the external consultant will only have to update these assessments.
14. Based on the conclusions of the due diligence exercise, the Unit Manager will prepare the Memorandum of Understanding the signature of which will trigger the signature of the Subsidiary Loan Agreement between the selected commercial bank and the MoF.

## **ANNEX 1 to NOTE 7**

### **ELEMENTS TO BE INCLUDED IN THE SUBSIDIARY LOAN AGREEMENT**

1. The following elements have to be included in the Subsidiary Loan Agreement related to the credit line extended by the MoF with PMPMD resources.
  - Signatories: The Subsidiary Loan Agreement (SLA) is to be signed between the Ministry of Finance (MoF) and each selected commercial bank willing to participate in the financing of PMPMD-supported women and women's groups;
  - Amount: The amount of the credit line will be defined with respect to the demand for loans emanating from PMPMD-supported women and women's groups that cannot be financed because of lack of resources from the Employment Generation Fund;
  - Interest rate: The MoF extends the credit line to selected commercial banks at 1.5% per year;
  - Duration: The credit line has a maturity of 10 years;
  - Repayment schedule: Interest due are to be paid each year at the anniversary date of the credit line. The principal is to be paid back to the MoF at maturity in one single installment;
  - Beneficiaries: (a) Only PMPMD-supported women and women's groups in the PMPMD-selected Soums are eligible to this credit line, and (b) based on the consolidation of all loan requests from PMPMD beneficiaries, their risk assessment and the determination of available EGF resources, riskier investments from PMPMD beneficiaries would be financed through EGF resources and would benefit from the PMPMD's guarantee, while less risky investments from PMPMD beneficiaries would be financed from PMPMD's credit line;
  - Terms and conditions applied to loans extended to PMPMD beneficiaries: When lending to PMPMD beneficiaries from proceeds of the credit line, selected commercial banks will apply the same interest as to loans extended to eligible beneficiaries from the Employment Generation Fund resources;
  - Revolving Fund: Repayments of loans extended to PMPMD-supported women and women's groups financed from the credit line proceeds will constitute a revolving fund that will be used to further lend to PMPMD-supported women and women's groups

### **ELEMENTS TO BE INCLUDED IN THE MEMORANDUM OF UNDERSTANDING**

2. Apart from the elements described above, the Memorandum of Understanding should also include the entire note 7 (Lending Activity).
3. The Memorandum of Understanding should be signed by the Unit, the PMPMD PMU and the selected commercial bank. For each Subsidiary Loan Agreement, there must be a Memorandum of Understanding signed.

### NOTE 8: ROADMAP FOR THE FIRST YEAR

The following table illustrates the PMPMD Guarantee Facility roadmap for its first year.

N. B.: It is assumed that the roadmap is starting on November 1<sup>st</sup>, 2012.

Ref.	Activities	Responsible	Deadline
1	Recruitment of the Unit Manager and Unit Assistant: <ul style="list-style-type: none"> <li>• Advertisement of the positions</li> <li>• Interviews</li> <li>• Selection of the candidates</li> <li>• Signature of the job contracts</li> </ul>	MoF	End December 2012
2	Capacity building of the Unit Manager and the Assistant: <ul style="list-style-type: none"> <li>• Training (either in an international training center such as ILO and/or by an international consultant)</li> <li>• Study tour (if possible in Korea)</li> </ul>	PMPMD PMU	End February 2013
3	Appointment of the PMPMD Guarantee Facility Technical Committee members	MoF	February 2013
4	Selection of commercial banks for the PMPMD Guarantee Facility scheme: <ul style="list-style-type: none"> <li>• Request for Expression of Interest</li> <li>• Local auditor contracted (if needed)</li> <li>• Assessment of potential commercial banks' procedures</li> <li>• Selection of commercial banks</li> <li>• Negotiation of performance indicators benchmarks</li> <li>• Signature of Guarantee Contracts for the portfolio guarantee scheme</li> <li>• Signature of Guarantee Agreements for the individual guarantee scheme</li> </ul>	Unit & CBs	February 2013
5	Implementation of Manual of Procedures of the PMPMD Guarantee Facility:	Unit	February 2013
6	Selection of commercial banks eligible to the PMPMD resources credit line: <ul style="list-style-type: none"> <li>• Request for Expression of Interest</li> <li>• Local auditor contracted (if needed)</li> <li>• Rapid due diligence exercise</li> <li>• Selection of commercial banks</li> <li>• Signature of a Memorandum of Interest</li> </ul>	Unit	March 2013
7	Subsidiary Loan Agreement (signed between each selected commercial bank and the MoF)	MoF & CBs	March 2013
8	First portfolio guarantees extended to commercial banks: <ul style="list-style-type: none"> <li>• Reception of list of loans extended by selected commercial banks to women's groups, producers' and herders' groups</li> <li>• Controls of compliance with eligibility</li> <li>• Acceptance or rejection of loans extended in the guaranteed loan portfolio</li> </ul>	CBs & Unit & PMPMD GF Technical Committee	From March 2013
9	First individual guarantees extended to commercial banks: <ul style="list-style-type: none"> <li>• Review of loans applications submitted by SMEs</li> <li>• Approval of loan applications</li> <li>• Issuance of the Individual Guarantee Contract</li> </ul>	CBs & Unit & PMPMD GF Technical Committee	From May 2013

CBs: Commercial Banks

GF: Guarantee Facility

## NOTE 9: FINANCIAL PROJECTIONS

1. Table 1 illustrates the need for a credit line to complement the Employment Generation Fund resources so that eligible beneficiaries (women's groups in the case of the PMPMD) can access loan funds at affordable terms and conditions.

2. Main assumptions included in the table are: (i) 370 PMPMD-supported women's groups to access a loan at affordable terms and conditions; (ii) EGF resources amount to MNT 35 million available in each Soum; (iii) loan size for PMPMD-supported women's groups increases from MNT 1.2 to 2.0 million over a cycle of 3 loans with only 50% of 1<sup>st</sup> borrowers receiving a 2<sup>nd</sup> loan and only 15% of 1<sup>st</sup> borrowers receiving a 3<sup>rd</sup> loan; (iv) 70% of women within a group receive a loan during 1<sup>st</sup> year and 30% during 2<sup>nd</sup> year; (v) loan maturity is two years, and (vi) 60% of EGF resources are allocated for PMPMD-supported women's groups (in complement to the PMPMD credit line).

Table 1: Financial projections for the credit line

Items	Assumptions	PY1	PY2	PY3	PY4	PY5	Total
<b>Assumptions: Group formation</b>							
# of women's groups created		120	70	90	90		370
Average members per group	7						
# of women		840	490	630	630		2,590
<b>Assumptions: Credit demand</b>							
- Average credit size (MNT)	1,200,000						
- % of women borrowing 1st time	70%	30%					
- Loan duration	2 years						
- % of women borrowing 2nd time	35%	15%					
- Average credit size (MNT)	1,500,000						
- Loan duration	2 years						
- % of women borrowing 3rd time	10%	5%					
- Average credit size (MNT)	2,000,000						
- Loan duration	3 years						
<b>Credit demand</b>		<b>705,600,000</b>	<b>714,000,000</b>	<b>1,146,600,000</b>	<b>1,202,250,000</b>	<b>835,800,000</b>	
<b>Financing the credit demand</b>							
<i>Employment Generation Fund</i>							
- Average resources allocated per soum per year	35,000,000						
- # of soums	20						
- % of resources allocated for PMPMD women's groups	60%						
- Annual resources available for PMPMD soums		420,000,000	420,000,000	420,000,000	420,000,000	420,000,000	
<b>Annual Financing Gap</b>		<b>285,600,000</b>	<b>294,000,000</b>	<b>726,600,000</b>	<b>782,250,000</b>	<b>415,800,000</b>	
<i>PMPMD re-allocated resources</i>							
- in USD	500,000						
- in MNT	673,750,000	388,150,000	165,550,000				
1st credit disbursements		285,600,000					
Repayments on 1st disbursements		71,400,000	142,800,000	71,400,000			
2nd credit disbursements			294,000,000	142,800,000	71,400,000		
Repayments on 2nd disbursements			73,500,000	182,700,000	162,750,000	71,400,000	17,850,000
3rd credit disbursements				239,050,000	182,700,000	162,750,000	71,400,000
Repayments on 3rd disbursements				59,762,500	165,200,000	191,800,000	144,900,000
4th credit disbursements					59,762,500	165,200,000	191,800,000
Repayments on 4th disbursements					14,940,625	71,181,250	145,490,625
5th credit disbursements						14,940,625	71,181,250
Repayments on 5th disbursements						3,735,156	43,060,938
<b>Credits extended</b>		<b>285,600,000</b>	<b>294,000,000</b>	<b>381,850,000</b>	<b>313,862,500</b>	<b>342,890,625</b>	
<b>Annual Financing Gap (after PMPMD and EGF)</b>		<b>-</b>	<b>-</b>	<b>344,750,000</b>	<b>468,387,500</b>	<b>72,909,375</b>	
<b>in USD</b>		<b>-</b>	<b>-</b>	<b>255,844</b>	<b>347,597</b>	<b>54,107</b>	

3. Table 3 shows that in the 20 PMPMD-selected Soums, the demand from PMPMD-supported women's groups can be financed during the first two years (in addition to a demand emanating from other beneficiaries in the PMPMD-selected Soums). From the 3<sup>rd</sup> year and onwards, the credit line extended by the MoF under the PMPMD is not sufficient to cover the demand from loans emanating from PMPMD-supported beneficiaries (financing gap of USD 256 000 and 348 000 during years 3 and 4 respectively). This financing gap could be reduced by increase the percentage of EGF resources allocated to PMPMD-supported beneficiaries or by increasing the EGF funds allocation in each Soum. Another solution would consist in having a revolving fund with the loan repayments from non-PMPMD beneficiaries (currently repayments are transferred back to the Central

Government which drastically reduces the outreach of the EGF).

4. Table 2 illustrates the resources that are requested to cover the expected demand for credit emanating from PMPMD beneficiaries i.e. SMEs, producers' groups, herders' groups and women's groups. The following assumptions have been considered for the financial projections and PMPMG Guarantee Facility resources estimate:

- Loans to 5 SMEs benefit from the PMPMD guarantee;
- Loans to 100 producers' and herders' groups benefit from the PMPMD guarantee (in addition, the second loan to 50 producers' groups and herders' groups is also benefiting from the PMPMD guarantee);
- Loans to 2 590 women in 370 groups are also benefiting from the PMPMD guarantee. 886 of these women are accessing the PMPMD guarantee for their second loan and 84 of these women are benefiting from the PMPMD guarantee for their third loan;
- Loans are extended for 2 years except for SMEs (maturity is 3 years);
- Loan size increases with the loan cycle: women's groups from MNT 1.2 to 2.0 million; producers' and herders' groups from MNT 75 million to 100 million, and MNT 200 million for SMEs;
- Portfolio performance considered are as follows:
  - Risk coverage: 70% on loans extended to women; 60% for loans extended to producers' and herders' groups and 50% for loans extended to SMEs;
  - The portfolio at risk for loans extended to women, producers' and herders' groups is set at 25% while it has been considered that 1 loan extended to a SME out of 5 projected will default;
  - The loan loss rate is set at 100%.

5. Considering the above-mentioned assumptions, the PMPMD Guarantee Facility should be capitalized up to USD 0.6 million (for USD 4.4 million outstanding cumulated loan portfolio i.e. a leverage of about 7:1). Considering that loan size could be increased, maturity longer and PMPMD-supported beneficiaries exceed projections, the PMPMD Guarantee Facility will be capitalized with USD 1 million.

6. Table 3 illustrates the number of other beneficiaries that can be guaranteed based on the remaining resources of the PMPMD Guarantee Facility. To determine the number of other beneficiaries of the PMPMG Guarantee facility (i.e. women, producers' groups, herders' groups, and SMEs in other Soums than those selected under the PMPMD), the same assumptions as those considered for the PMPMD beneficiaries have been considered (except for SMEs which can access a second loan amounting to MNT 350 million).

7. The PMPMD Guarantee Facility remaining resources amount to USD 1.9 million: initial allocation of USD 3.4 million minus resources allocated for the credit line (USD 0.5 million) and resources allocated for guarantees extended to commercial banks when lending to PMPMD beneficiaries (USD 1 million).

8. The estimated number of other beneficiaries that can benefit from the PMPMD guarantee is as follows:

- 5 425 women for a first loan (in 850 groups) and 1 120 women for a second loan;
- 330 producers' and herders' groups for a first loan and 60 producers' and herders' groups for a second loan;
- 16 SMEs accessing a first loan and 2 SMEs accessing a second loan.

9. Table 4 illustrates the annual requirement for additional resources for: (a) the MoF credit line for PMPMD-supported women's groups; (ii) the PMPMD Guarantee Facility mechanism to cover loans extended to PMPMD beneficiaries, and (iii) the PMPMD Guarantee Facility mechanism to cover loans extended to other beneficiaries.

Table 4: Resources requirements

Transfer projections	PY2	PY3	PY4	PY5	Total
<i>For PMPMD beneficiaries</i>					
- Guarantee Facility	200.000	400.000	400.000	-	1.000.000
- Credit Line	250.000	250.000	-	-	500.000
Sub-total	450.000	650.000	400.000	-	1.500.000
<i>For non-PMPMD beneficiaries</i>					
Total	1.050.000	1.050.000	1.300.000	-	3.400.000
Cumulative Disbursements	1.050.000	2.100.000	3.400.000	3.400.000	

10. Table 5 illustrates under normal conditions the profit and loss of the PMPMD Guarantee Facility. Normal conditions include: (i) 3% default rate (currently Savings Bank, XacBank and Khan Bank have less than 3% PAR with their rural loan portfolio), and (ii) 30% loan loss rate (currently the three above-mentioned banks have a loan loss rate of less than 15%).

11. With these normal conditions, and considering the investment of 90% of the PMPMD Guarantee Facility resources at 3.5% per year (secured financial investments), (a) the resources of the PMPMD Guarantee Facility will only be reduced by about USD 100 000, and (b) the PMPMD Guarantee Facility is sustainable as it covers its operating costs from Year 2 of operations onwards.

12. The PMPMD will have to finance about USD 200 000 (already allocated in the PDR) to cover the necessary investments for the implementation of the PMPMD Guarantee Facility, i.e.: a vehicle and computer equipment; training courses with Boulder/ILO and with APRACA; study tours (in Korea and in another Asian country), and the operating loss of the first year of the PMPMD Guarantee Facility operations.



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Table 2: PMPMD Guarantee Facility resources requirements

Items	Assumptions	PY1	PY2	PY3	PY4	PY5	Total
<b>Assumptions</b>							
<b>Women's groups</b>							
<b>1st loan</b>							
- Average loan amount/member	1,500,000	1,113					
- Average duration	2 years						
- # of groups formed		120	70	90	90		370
- Average # of members/group	7						
- Annual # of women		555	595	555	630	159	2,590
- Groups' members borrowing pattern	70%	30%					
<b>2nd loan</b>							
- Average loan amount/member	2,000,000	1,484					
- Average duration	2 years						
- Groups' members borrowing pattern	35%	15%					
- Annual # of women				294	290	294	878
<b>3rd loan</b>							
- Average loan amount/member	3,000,000	2,226					
- Average duration	3 years						
- Groups' members borrowing pattern	10%	5%					
- Annual # of women						54	54
<b>Herders' &amp; Producers' groups</b>							
<b>1st loan</b>							
- Average loan amount/group	75,000,000	55,659					
- Average duration	2 years						
- # of groups formed			40	60			100
<b>2nd loan</b>							
- Average loan amount/group	100,000,000	74,212					
- Average duration	2 years						
- Borrowing groups pattern	50%						
- # of borrowing groups					20	30	50
<b>SMEs</b>							
- Average loan amount/SME	200,000,000	148,423					
- Average duration	3 years						
- # of SMEs supported			1	2	2		5
<b>Credit requirement</b>							
<b>Credit disbursements</b>							
- Women's groups		552,000,000	592,500,000	1,470,000,000	1,540,000,000	1,123,500,000	5,905,000,000
- Herders' & Producers' groups			3,000,000,000	4,500,000,000	2,000,000,000	3,000,000,000	12,500,000,000
- SMEs			200,000,000	400,000,000	400,000,000	-	1,000,000,000
Total		552,000,000	4,092,500,000	6,370,000,000	3,940,000,000	4,123,500,000	19,408,000,000
<b>Repayments</b>							
- Women's groups		220,500,000	664,125,000	1,034,250,000	1,343,125,000	1,397,375,000	4,659,375,000
- Herders' & Producers' groups			750,000,000	2,625,000,000	3,500,000,000	2,575,000,000	9,750,000,000
- SMEs			33,333,333	133,333,333	266,666,667	300,000,000	733,333,333
Total		220,500,000	1,447,458,333	3,792,583,333	5,109,791,667	4,572,375,000	15,142,708,333
<b>Outstanding loan portfolio</b>							
- Women's groups		661,500,000	589,575,000	1,325,625,000	1,522,500,000	1,245,625,000	
- Herders' & Producers' groups		-	2,250,000,000	4,125,000,000	2,625,000,000	2,750,000,000	
- SMEs		-	166,666,667	433,333,333	566,666,667	266,666,667	
Total		MNT 661,500,000	3,306,541,667	5,883,958,333	4,714,166,667	4,265,291,667	
		USD 490,909	2,453,834	4,366,574	3,498,454	3,165,337	
<b>Risk-sharing Arrangement</b>							
<b>Risk Coverage</b>							
- Women's groups	70%						
- Herders' & Producers' groups	60%						
- SMEs	50%						
<b>Portfolio At Risk</b>							
- Women's groups	25%						
- Herders' & Producers' groups	25%						
- SMEs	1 out of 5						
<b>Guarantee resources allocated</b>							
- Women's groups		115,762,500	155,725,125	231,954,375	266,437,500	215,509,375	
- Herders' & Producers' groups		-	337,500,000	615,750,000	393,750,000	412,500,000	
- SMEs			53,333,333				
Total		MNT 115,762,500	576,561,458	850,734,375	660,187,500	631,009,375	
		USD 85,909	427,875	631,343	489,935	468,282	

Table 3: PMPMD guarantee for other beneficiaries

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Items		PY2	PY3	PY4	PY5	Total
<b>Non-PMPMD beneficiaries loan portfolio</b>						
<b>Women's groups</b>						
<b>1st loan</b>						
- Average loan amount/member	1,500,000	1,113				
- Average duration	2 years					
- # of groups financed		150	200	220	250	550
- Average # of members/group	7					
- Annual # of women		552	1,355	1,495	1,657	5,425
- Groups' members borrowing pattern	70%	30%				
<b>2nd loan</b>						
- Average loan amount/member	2,000,000	1,484				
- Average duration	2 years					
- Groups' members borrowing pattern	35%	15%		441	679	1,120
- Annual # of women						
<b>3rd loan</b>						
- Average loan amount/member	3,000,000	2,226				
- Average duration	3 years					
- Groups' members borrowing pattern	10%	5%				
- Annual # of women						
<b>Herders' &amp; Producers' groups</b>						
- Average loan size (1st loan)	75,000,000	55,659				
- # of beneficiaries			50	70	90	120
- Average loan size (2nd loan)	100,000,000	74,212				
- # of beneficiaries		50%		25	35	60
- Loan duration	2 years					
<b>SMEs</b>						
- Average loan size (1st loan)	200,000,000	146,423				
- # of beneficiaries			2	4	5	5
- Average loan size (2nd loan)	350,000,000	259,740				
- # of beneficiaries		30%		1	1	2
- Loan duration	3 years					
<b>Credit disbursements</b>						
- Women's groups		1,323,000,000	2,037,000,000	3,129,000,000	3,555,500,000	10,377,500,000
- Herders' & Producers' groups		3,750,000,000	5,250,000,000	9,250,000,000	12,500,000,000	30,750,000,000
- SMEs		400,000,000	900,000,000	1,210,000,000	1,350,000,000	3,760,000,000
<b>Repayments</b>						
- Women's groups		330,750,000	1,170,750,000	2,131,500,000	3,045,575,000	
- Herders' & Producers' groups		937,500,000	3,157,500,000	5,575,000,000	9,062,500,000	
- SMEs		66,666,667	266,666,667	601,666,667	961,666,667	
<b>Outstanding loan portfolio</b>						
- Women's groups		99,225,000	1,555,500,000	2,556,000,000	3,695,625,000	
- Herders' & Producers' groups		2,512,500,000	4,575,000,000	5,250,000,000	11,657,500,000	
- SMEs		333,333,333	966,666,667	1,475,000,000	1,563,333,333	
<b>Total Outstanding Loan Portfolio</b>		<b>4,138,083,333</b>	<b>7,600,166,667</b>	<b>12,581,000,000</b>	<b>17,249,458,333</b>	
<b>Guarantee Coverage</b>						
- Women's groups		70%				
- Herders' & Producers' groups		60%				
- SMEs		50%				
- PAR		25%				
- Loan Loss Rate		100%				
<b>Resources to be allocated for guarantee</b>						
- Women's groups		173,643,750	325,237,500	499,500,000	647,259,375	
- Herders' & Producers' groups		421,575,000	731,250,000	1,237,500,000	1,753,125,000	
- SMEs		41,666,667	105,333,333	154,375,000	232,916,667	
<b>Total resources required</b>	<b>MNT</b>	<b>637,185,417</b>	<b>1,164,820,833</b>	<b>1,921,675,000</b>	<b>2,633,301,042</b>	
	<b>USD</b>	<b>472,865</b>	<b>864,431</b>	<b>1,426,104</b>	<b>1,954,212</b>	

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Table 5: PMPMD Guarantee Facility - Profit and Loss Statement and Balance of funds available

Profit and Loss Statement	2012	2013	2014	2015	2016	Total		
Transfer from IFAD (according to Appraisal)		800.000	800.000	1.300.000		2.900.000		
Cumulative transfer		800.000	1.600.000	2.900.000	2.900.000		<b>Assumptions</b>	
Income from investment		25.200	49.547	89.297	88.947		Investment in secured financial instruments	90%
<b>Operating expenses</b>							Interest rate	3,50%
- Salaries		29.400	29.400	29.400	29.400		Investment in current account	10%
- Overheads from Loan Guaranteeing Entity		5.880	5.880	5.880	5.880		Interest rate	0%
- Local travels		7.350	7.350	7.350	7.350		Manager monthly salary	1.350
<b>Total</b>		<b>42.630</b>	<b>42.630</b>	<b>42.630</b>	<b>42.630</b>		Assistant monthly salary	1.100
<b>Net result</b>		<b>-17.430</b>	<b>6.917</b>	<b>46.667</b>	<b>46.317</b>		Operating costs	20%
<b>PMPMD Contribution to the Guarantee scheme</b>							Local travels	25%
- Operating losses		17.430				17.430		
- Training		40.000	20.000	20.000		80.000		
- Equipment (vehicle, computer equipment)		50.000				50.000		
- Study tours			20.000	20.000		40.000		
<b>Total</b>		<b>107.430</b>	<b>40.000</b>	<b>40.000</b>	<b>-</b>	<b>187.430</b>		
<b>PMPMD resources after pay-outs (current loan portfolio performance)</b>							<b>Assumptions</b>	
Resources transferred		800.000	800.000	1.300.000	-		Default rate	3%
Pay-outs		27.071	45.030	57.758	71.849		Loan loss rate	30%
<b>Net cumulative resources available</b>		<b>772.929</b>	<b>1.534.816</b>	<b>2.823.725</b>	<b>2.798.194</b>		Average outstanding loan amount when called i	70%

## **Draft Memorandum of Understanding between MOF, MOL and MOIA**

### MEMORANDUM OF UNDERSTANDING

Between

The Ministry of Finance, The Ministry of Industry and Agriculture and The Ministry of Labor

Preamble

1. Within the IFAD-funded Project for Market and Pasture Management Development (PMPMD), a Loan Guarantee Fund (LGF) should be implemented to facilitate access by the poor rural households to commercial banks' loans. For this purpose, the Ministry of Finance (MOF), the Ministry of Industry and Agriculture (MOIA) and the Ministry of Labor (MOL) have reached a memorandum of understanding (MOU) as follows.

Objective

2. The objective of this Memorandum of Understanding is to ensure that the PMPMD financed LGF will provide efficient and effective loan guarantees to the PMPMD beneficiaries and non-PMPMD beneficiaries and sufficient loan resources will be made available from by the resources from the Small and Medium Enterprises (SMEs) Development Fund and the Employment Generation Fund (EGF) under the Ministry of Labour and the Two-Step Loan project under the MOF to finance the borrowing requirements from the PMPMD borrowers at concessional terms and conditions. The MOU also aims at strengthening the coordination between MOF, MOIA and MOL in supervising and monitoring the operations and performance of the SMEs Development Fund, the EGF and the Two-Step Loan Project, to meet the above-mentioned objective.

### **Institutional Arrangements for the PMPMD Financed Loan Guarantee Fund**

3. The PMPMD financed Loan Guarantee Fund (LGF) will be implemented by a separate unit to be established in the Ministry of Finance (MOF) as part of the PMPMD Project Management Unit (PMU) of MOIA. The MOF Unit will be staffed with two qualified professional officers to be recruited by the MOF according to the agreed terms of reference (TOR) and qualifications and located at MOF. The unit will be mandated to issue portfolio and individual guarantees to selected participating commercial banks who will provide loans to eligible borrowers. The MOF Unit will review loan applications and their risk assessment. The Unit is monitored by a Technical Committee mandated by the PMPMD LGF Steering Committee, which will consist of one MOF representative; one MOL representative and one MOIA representative. The PMPMD PMU Project Director will participate in the Technical Committee meetings as observer with no voting right. The MOF will serve as the secretary for the PMPMD LGF Technical Committee. The Committee has the responsibilities for signing a guarantee contract with each participating commercial bank and approving new loans in their guaranteed portfolio in case of a portfolio guarantee, giving the final approval in case of individual guarantees based on recommendations from the Unit and managing the LGF resources, commitments, risk exposures and liability. Once a proper Guarantee Fund is fully operational and duly licensed and supervised by the Financial Regulatory Commission, either operated by a legal private sector, or public/private sector entity, the Unit will transfer and integrate the functions of the transitional PMPMD financed LGF into a formal Loan Guarantee Fund. The formal Loan Guarantee Fund will take over all guarantees already extended by the Unit of the MOF and maintain the related commitments made by the MOF Unit. The Unit of the MOF will no longer extend any more guarantee and the Technical Committee will be dissolved.

### **Operations of the Loan Guarantee Fund and Utilization of the Resources from the Two-Step Loan Project, the SMEs Development Fund and the Employment Generation Fund**

4. The total amount of financial resources allocated from the PMPMD financed LGF is about USD 2.9 million. The allocation of the PMPMD financed LGF is as follows: (i) USD 1.0 million for PMPMD borrowers' guarantee purposes; and (iii) USD 1.9 million for other borrowers' guarantee purposes in non-PMPMD areas.

5. Eligible borrowers from the PMPMD financed LGF include mainly two sub-groups: (a) PMPMD target beneficiaries comprising of existing and to-be-created SMEs, producers and herders' groups and Self-Help Groups (SHGs) located in one of the following aimags: Arkhangay, Bulgan, Gobi-Altai, Khentii and Khuvsgul; and (b) eligible borrowers in non-PMPMD aimags. The eligible borrowers covered under the PMPMD financed LGF include smallholders, producers, herders and rural entrepreneurs and households, with priority given to rural women.

6. The following eligibility criteria will apply to the PMPMD financed LGF: (i) activities financed are within PMPMD-supported value chains; (ii) investments considered have a direct and measurable impact on smallholders, producers, herders and rural households' income; (iii) loans extended by banks are financed either from EGF's or SMEs Development Fund's resources; and (iv) same maximum loan sizes of less than MNT 2.0

million per borrower are applied as those applied to the PMPMD beneficiaries.

7. The guarantees to be issued from the PMPMD financed LGF should be able to cover 50% to 80% of the risks of the outstanding loan amounts extended by the participating commercial banks. In order to benefit from more concessional terms and conditions, the PMPMD financed LGF guaranteed loans will be funded from the resources from the SMEs Development Fund and the Employment Generation Fund under MOL and the Two-Step Loan project under MOF.

8. MOF, MOL and MOIA will ensure that sufficient resources are allocated from the Two-Step Loan project and the SMEs Development Fund (for loans extended to existing and to-be-created SMEs and to producers' and herders' groups) and the Employment Generation Fund (for loans extended to SHGs) to cover the annual needs for loan funds from PMPMD target beneficiaries, which will be guaranteed under the PMPMD financed LGF.

9. The PMPMD Annual Work Plan and Budget (AWP&B) should include the required resources to be covered under the PMPMD financed LGF and approved each year by the PMPMD Steering Committee and by IFAD. Based on the AWP&B, the Technical Committee will earmark sufficient resources from the SMEs Development Fund, the Two-Step Loan Project and the Employment Generation Fund to cover the annual needs for loan funds estimated in each PMPMD AWP&B and guaranteed under the PMPMD financed LGF. The Technical Committee will meet at least once per year once each PMPMD AWP&B has been approved.

10. Currently, resources from the Employment Generation Fund are insufficient to finance both the demand for loans emanating from SHGs supported by the PMPMD and the demand for loans emanating from its normal beneficiaries. In this respect, an amount of USD 0.5 million has been allocated from the resources allocated for guarantee purposes under the IFAD Loan for PMPMD. This amount will be used as a credit line extended to participating commercial banks in order to complement the Employment Generation Fund resources. Loans extended to SHGs from this credit line should bear the same terms and conditions as those financed from the Employment Generation Fund resources (maximum interest rate 0.875% per year; maximum maturity of 2 years; and maximum amount of MNT 10 million). Based on the incremental demands for loans from PMPMD-supported SHGs and satisfactory financial reporting on previously released funds issued by each participating commercial bank and according to the approved AWP&B of PMPMD, the Technical Committee will approve the disbursement of additional resources to commercial banks from the credit line.

#### Conclusions

11. This Memorandum of Understanding will remain valid for the duration of the PMPMD until November 2016, regardless of any future possible restructuring of Ministries and/or funds and projects. The Memorandum of Understanding can be extended subject to the formal agreement among the three signatories.

12. The Annex to the Memorandum of Understanding includes the following:

- (i). Draft Manual of Procedures for the PMPMD Loan Guarantee Facility implemented through the MOF Unit and the PMU for both PMPMD and other beneficiaries.
- (ii). Draft Terms of Reference for the staff of the MOF Unit in charge of the LGF.
- (iii). A 12-month road map for the development of the PMPMD LGF.
- (iv). A draft sample Subsidiary Loan Agreement between the MOF and participating commercial banks for the credit line.

13. Signed by the parties named below on xx xx 2012 in Ulan Bator, Mongolia, in three originals.

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Ministry  
of Labor  
[Name and Position]

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Ministry  
of Industry and Agriculture  
[Name and Position]

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Ministry  
of Finance  
[Name and Position]

## **Annex 2 Value Chain Development**

### **Appendix 1 Terms of Reference Consultants - Value Chain Development**

The objective of the Project for Market and Pasture Management Development (PMPMD) is to reduce poverty, improve livelihoods of poor herders and Soum and Aimag centre households in the PMPMD area. The PMPMD comprises two main components: (i) Market Development, and (ii) Pasture Management and Climate Change Adaptation.

Under the Market Development component, the PMPMD promotes poverty reduction and livelihood improvement through economic development at two different levels: (i) value chain development, and (ii) small enterprise development. These Terms of Reference relate to the first sub-component, i.e. value chain development.

The PMPMD seeks to develop value chains and linkages between producers' and herders' groups and SMEs (existing or to-be-created) in the PMPMD area. The implementation and monitoring of the developments and linkages of selected value chains will be the responsibility of a team of 3 consultants: An international Value Chain Development Specialist who will also be the Team leader, a Financial Specialist and a Technical Specialist. These two latter will be Mongolian consultants. Considering the wide range of value chains that can be developed, the PMPMD is seeking to develop a roster of technical consultants each with an expertise in a specific value chain.

#### **VALUE CHAIN DEVELOPMENT SPECIALIST**

The PMPMD approach in a given value chain is to identify demand first and then link it to herders' and producers' groups, selling quality outputs on the basis of a medium-long term commercial agreement.

Under the programmatic guidance of the PMPMD PMU Manager, the Value Chain Development Specialist will perform the following tasks:

1. Identify market opportunities at regional, national and international levels based on Mongolian production;
2. Undertake value chain analyses in each of the five PMPMD-selected Aimag and twenty Soums for identified commodities with particular focus on increasing upstream benefits; opportunities and constraints; regional marketing trend; supply and demand gaps; distribution networks; potential for improved technologies and quality promotion; SWOT analysis;
3. Together with the PMPMD PMU Manager, select value chains with offer prospects for growth and development;
4. Map the selected value chains describing the structure and flow of the chain in logical clusters, the various stakeholders, the links among them, and the whole range of chain operations from pre-production (supply of inputs) to industrial processing and marketing; quantifying the value chain in terms of production volume, size and scale of main stakeholders, markets' potential and growth;
5. Analyze value chain activities, performance, and competitiveness capabilities of value chain stakeholders through key indicators (time, cost, value added, productivity, technological capacities);
6. Identify major leverage points for value chain development and market opportunities as basis for better livelihoods of upstream stakeholders, i.e. producers and herders;
7. Conduct research to identify private and/or public SMEs, producers and herders' groups for the development of the priority value chains in the PMPMD-selected Soums;
8. Support private and/or public SMEs for the elaboration of a business and investment plans that would benefit producers' and herders' groups;
9. Validate and finalize business and investment plans with identified producers' and herders' groups;
10. Assist SMEs and producers' and herders' groups in entering into long-term contractual arrangements (specific focus will be given to premium pricing mechanism);
11. Together with the technical expert, assist producers' and herders' groups to enter into contractual arrangements with other stakeholders of the value chain (input suppliers, other non-financial service providers);
12. Together with the financial expert, determine the best option for the financing of the proposed investment for all stakeholders (SMEs and producers/herders' groups);
13. Build/strengthen capacity and promote economic awareness for equitable distribution of the benefits among all value chain stakeholders;
14. Contribute to the dissemination and knowledge management of results and findings to all PMPMD partners at the Soums, Aimag and national levels;

15. Provide recurrent technical assistance and capacity building to value chain stakeholders with regards to linkages and strengthening of the relationship between stakeholders.

#### Minimum Qualifications Required

- Master degree preferably in business management and/or development science;
- Minimum five years of relevant international work experience on value chain and private sector development;
- Strong market analysis and development capacity for agricultural products and services in rural areas, and strong capacity in building networks and alliances;
- Experience in poverty reduction initiatives through livelihood development for rural communities;
- Demonstrable knowledge on pro-poor value chain development and participatory methods;
- Ability to achieve pro-poor, gender sensitive and socially inclusive working results;
- Accustomed to working in a cross-cultural environment, and able to understand different administrative and management practices;
- English skills;
- Knowledge of Mongolia would be an advantage.

#### **FINANCIAL SPECIALIST**

Under the leadership and supervision of the Value Chain Development Specialist, the Financial Specialist will perform the following tasks:

1. For identified commodities, analyze the breakdown of value added between all stakeholders (margin and production costs at each level);
2. For selected value chains, elaborate different pricing scenario and analyze impact for all stakeholders;
3. Assist SMEs to finalize their business and investment plans based on the negotiations with potential producers' and herders' groups with a specific attention to impact of the proposed investment for producers' and herders' groups in terms of increase in income and activity;
4. Assist SMEs and producers/herders' groups to select the most favorable financing option to finance the business and investment plans;
5. Assist producers and herders' groups to negotiate their loans with selected commercial banks and assist producers' and herders' groups to seek for the guarantee of the PMPMD Guarantee Facility (under the individual guarantee scheme);
6. Provide capacity building and advisory services to all stakeholders of the value chain with regards to financial, credit and cash management, accounting/bookkeeping, cash-flow projections.

#### Minimum Qualifications Required

- Master degree preferably in finance and/or accounting;
- Minimum five years of relevant work experience on private sector financing (investment or commercial banks) or on private sector development (either in a donor-funded project or a financial institution);
- Strong knowledge of the financial sector in Mongolia;
- Experience in poverty reduction initiatives through livelihood development for rural communities;
- Capacity to propose innovative financing models and instruments for value chain development;
- English skills.

#### **TECHNICAL SPECIALIST**

Under the leadership and supervision of the Value Chain Development Specialist, the Technical Specialist will perform the following tasks:

1. For identified value chains and together with the Value Chain Development Specialist, analyze the technical aspects of each value chain with a focus on areas with potential for technological and quality improvements, technical feasibility and necessary quality safeguards;
2. Assist producers/herders' groups to identify input suppliers and other technical service providers and to enter into contractual arrangements with them;
3. Identify for each value chain stakeholder, technical training needs;
4. Assess the technical feasibility of the business and investment plans;

5. Provide recurrent capacity building, advisory services and training to value chain stakeholders and identify other service providers if needed.

Minimum Qualifications Required

- Technical degree in one of the selected value chain;
- Minimum five years of relevant work experience on value chain development;
- Capacity to propose technical and technological innovations with regards to production, processing, transportation, storage in selected value chains;
- Experience in poverty reduction initiatives through livelihood development for rural communities
- English skills.

Nota Bene: One technical specialist will be identified for each selected value chain. Identified technical specialists will be included in a specific roster and will be contracted when the project will support activities within their field of expertise.

TIMEFRAME

The following table tentatively indicates the timeframe for each of the three consultants. It has been considered that the team of consultants would have been selected and will start its activity by the end of March 2013, at the latest.

Timeframe for consultants

Consultants	2013				2014				2015				2016				Total									
	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7		8	9	10	11	12	1	2	3	4
Value Chain Development Specialist	■	■	■	■					■	■	■	■					■	■								12
Financial Specialist	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■					■	■	■	■	■	18
Technical specialist	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	18



## Appendix 2 Training Modules for Unit Staff

The training modules for the Unit Staff with regards to the provision of guarantees will include the following aspects:

1. Introduction.
  - Small enterprises: engines of development;
  - Types of small enterprises;
  - The role of guarantee funds;
  - A historical perspective;
  - Guarantee Fund experience in Mongolia;
  - The justification for credit guarantee funds.
2. The role of credit guarantees
  - When credit guarantees are necessary;
  - Banking principles and the logic of guarantees;
  - Features of good collateral;
  - Conditions for successful guarantee schemes;
  - Guarantee schemes as part of a larger programme.
3. Guarantee Funds models
  - Types of guarantee funds;
  - Funded versus un-funded schemes;
  - Individual guarantee schemes versus portfolio guarantee schemes;
  - Enterprise-oriented versus institution-oriented schemes;
  - Ex-ante versus ex-post guarantee schemes;
  - Mutual guarantee associations.
4. Eligibility
  - For whom has the guarantee fund been designed;
  - Eligibility criteria for small enterprises;
  - Eligibility of banks, NGOs or microfinance institutions.
5. Risk Sharing
  - Why risk sharing?
  - What can the borrower offer as collateral?
  - Liquidating collateral
  - Risk sharing and the delivery mechanism;
  - The line of risk;
  - The size of the guarantee;
  - The valuation of the guarantee.
6. Setting the size of the Guarantee Fund
  - Factors that determine the size of the Guarantee Fund;
  - The demand for guarantees;
  - The type and size of the guarantee fund;
  - Possible sources of funding;
  - Leverage;
  - What are desirable leverage rates for guarantee funds?
7. Operating procedures and processes
  - Application procedures;
  - Appraisal procedures;
  - Issuance of guarantees;
  - Loan follow-up;
  - Claims;
  - Validation of claims;
  - Payment of claims;
  - Recovery of losses.
8. Relation management and marketing

- Relation arrangement with core stakeholders;
  - Establishing relations with partner banks;
  - Training of branch managers and operational staff;
  - Monitoring the performance of the partner banks;
  - Relations with financiers;
  - Marketing the guarantee fund to small enterprises;
  
  - Moral hazard: the risk of misperceptions.
9. Organization, Management and Staffing
- Mission, vision and objectives;
  - Organizational culture;
  - Governance issues;
  - Professional staff functions and positions;
  
  - Staff capacity and training.
10. Pricing and financial sustainability
- Cost recovery;
  - Cost of funds;
  - Losses on guarantee operations;
  - Operational costs;
  - Guarantee fees and administrative fees;
  - Return on investment;
  - Do guarantee funds have to be financially sustainable?
  - Why is financial sustainability seldom reached?
  
  - Ways to improve sustainability.
11. Accounting and Financial Reporting
- The objectives of financial reporting;
  - The liquidity forecast;
  - The portfolio report;
  - The profit and loss statement;
  - The balance sheet;
  - The recording of guarantees issued;
  - Provisions;
  - Contributions to the fund;
  - Subsidies;
  - Reserves;
  
  - Management information systems.
12. Performance Monitoring
- The need for performance indicators;
  - Financial performance indicators;
  - Portfolio at risk;
  - Socio-economic performance monitoring;
  - Additionality and graduation;
  - IFAD RIMS indicators.

The Unit staff training will be twofold: (i) training courses at the ILO training center in Torino (Guarantee Fund Management) or training courses at an institution in South-East Asia identified through the APRACA network, and (ii) technical assistance provided by an international consultant contracted for the implementation of the PMPMD Guarantee Facility and its procedures.

The ILO training should be, to the extent possible, made available for the Unit staff before the PMPMD Guarantee Facility extends its first guarantees (i.e. March/April 2013). If it is impossible, the international consultant would provide the training on the above-mentioned aspects and the Unit staff would then attend the ILO training courses during 2013.

### **Appendix 3 ToRs for the Micro-enterprise Service Provider**

Awareness campaign (information and dissemination campaign).

In each soum, the Service Provider will organize at least two awareness campaigns: a/ one for the local administration representatives (soum governors and local representative at bag and soum levels), and b/ one for the general community. The Service Provider will detail the project's objectives and activities with a specific focus on activities to be undertaken under the self-help groups sub-component.

This activity has already been undertaken in the 20 PMPMD-selected Soums of the 5 Aimags. However, considering that assistance should be provided by the service provider to communities to form 260 additional groups, another awareness campaign focusing on rural communities will be undertaken in Year 3 of the PMPMD.

Assistance to group formation.

The Service Provider will assist the community to form groups on a voluntary basis (one or more groups can be formed in each Soum).

These groups are joint-liaible groups with an average membership of 10 members, of which 75% should be women. Priority should be given to members of households placed on the Soum governor's list of poor and very poor families.

During a period not exceeding 6 months, members of each group will be able to borrow from the group on the basis of savings mobilized by members.

After this period and subject to a 100% on-time repayment rate, members will be eligible to a loan extended by commercial banks from resources of the Employment Generation Fund or from the PMPMD (under a Subsidiary Loan Agreement signed between the bank and the MoF). Since informal groups are not eligible for borrowing from commercial banks and eligible to the Employment Generation Fund, the service provider will assist individuals or activity groups to access loans from commercial banks. Activity groups consist of women undertaking the same activity, the more experienced member of the group in that activity becoming the 'group leader' will borrow under his/her name from the commercial bank and will then allocate the money among all activity group members according to the need of each member. Individual loans are extended by commercial banks against joint-liability of all group members. Activity group loans are extended against joint-liability of all activity group members.

The maximum loan size per group member is limited to around USD 1 500 (MNT 2 million).

The Service Provider will train group members on: (i) group governance and management; (ii) group members' responsibilities and duties; (iii) joint-liability concept; (iv) credit and savings management and monitoring, and (v) conflict resolution. The Service Provider will also assist each group to nominate its governing bodies and to draft its bylaws.

Provision of skill trainings in micro-enterprises activities.

Based on activities undertaken by group members, the Service Provider will assess the training needs for each group and each member within a group in different skills: technical; financial; marketing and commercialization; supply; quality control, and pricing. Once the skills have been identified, the Service Provider will elaborate together with groups a training plan and will organize training sessions which will regroup several groups (to the largest extent possible).

The Service Provider will also update and fine-tune its own training material and documents in accordance with activities undertaken by group members. It is expected that the Service Provider develops: a/ specific training curricula for activities undertaken by group members, and b/ leaflets, hand-outs and other training material to be given to groups. Provision of trainings will be undertaken by the Service Provider's own staff or by external consultants/firms specifically contracted and supervised by the Service Provider.

To develop training material and awareness among group members, the Service Provider will use the ILO 'Find your Idea', 'Create your Business' and 'Develop your Business' approach.

Provision of management training.

The Service Provider will also organize management training: business management related to activities carried out by each member. The business management training will mainly focus on financial aspects such as cash-flow management, credit management, basic bookkeeping, price determination and understanding of profit margin.

As for skill trainings, the provision of these trainings will be carried out either by the Service Provider's own staff or by an external consultant/firm specifically contracted and supervised by the Service Provider.

Provision of commercialization-oriented trainings.

To facilitate access to markets and ensure financial sustainability of income-generating activities implemented and developed by group members, the Service Provider will also focus the provision of trainings on: a/ identification of market opportunities and identification of related constraints (market survey and analysis,

assessment of demand from market and its profitability); b/ identification of potential for product differentiation through design, packaging, labeling, branding for eco-friendly or sustainable practices; c/ assistance to access to new technologies for quality improvement, and d/ identification of new marketing channels.

The Service Provider should not only focus on activities proposed by groups and their members but should also promote innovative activities in order to diversify production and reduce risk exposure for both commercial banks and groups. Based on its experience across the country, the Service Provider should identify activities with a market potential that can be replicated in the PMPMD-selected Soums. In that respect, the Service Provider will adapt/develop the necessary training material and curricula for these activities.

Assistance with the elaboration of business/investment plan.

The Service Provider will assist group members or activity group leaders to elaborate their business/investment plan that will be submitted to commercial banks. A preliminary workshop between the selected Service Provider and commercial banks that are financing such target population (Savings Bank, Khan Bank and XacBank) will determine the format of documents required by commercial banks as well as the different documentation to support a business/investment plan.

Assistance with the banking sector.

The Service Provider will assist group members or activity group leaders to submit their business/investment plan to project commercial banks (Savings Bank, XacBank and Khan Bank). They will assist group members or activity group leaders in the negotiation of loan terms and conditions.

Follow-up on groups.

The Service Provider will continue its assistance to groups and group members for at least 12 months after the extension of a loan by a commercial bank. Advisory services, refresher training courses, assistance with business/investment plans and banking sector will continue to be provided by the Service Provider on demand from groups.

Baseline Survey and annual follow-up.

During the first three years of its interventions in each Soum, the Service Provider will select 1 group in each project-selected Soum and will monitor the following indicators: a/ household's monthly income (broken down by source and type of income); b/ household's yearly savings, and c/ evaluation of total household's assets (broken down by type of assets). Each year, the Service Provider will evaluate changes related to these three indicators to measure the PMPMD financial impact on the household's livelihood.

Reporting.

The Service Provider will submit a quarterly report in both Mongolian and English to the PMPMD Project Management Unit detailing the physical progress of the activity (nature of activities carried out, number of beneficiaries by type of activity, explanations related to any difference between budget and actual achievements) and the financial progress (actual expenditures against budget and reasons for significant differences).

Organization in the Soums.

Apart from its representation at Aimags and Soums levels, the Service Provider will contract one local facilitator per Soum (i.e. 20 local facilitators in total). The objective of these local facilitators is: a/ to increase the efficiency and proximity with groups, and b/ to facilitate liaison with Soum administration, financial institutions and other service providers (particularly for training and capacity building). The 5 local facilitators already contracted by the Service Provider will act as focal points in each of the 5 Aimags under the PMPMD.

The Service Provider will ensure the training and capacity building of the 15 newly contracted local facilitators. This training will be provided by the 5 already contracted local facilitators, by staff from the Service Provider and by external consultants (if deemed appropriate).

The 15 new local facilitators should have been contracted and trained by March 2013 at the latest.

Knowledge Management.

The Service Provider will regularly organize meetings at Soum level aiming at sharing the experience of groups in the development of their business, their relation with other stakeholders (administration, suppliers, off-takers, commercial banks).

At least once per year, the Service Provider will also organize at Aimag level the 'PMPMD day' where groups will present their experience and their production.

The Service Provider will also document through videos and booklets the most successful experiences and these documents will be used for knowledge dissemination and awareness campaign.

Finally, the Service Provider will continue to communicate and advertise with local newspapers, radios and TVs.

## TIMING OF ASSISTANCE

The assistance, training, advisory services and monitoring to be provided by the Service Provider can be phased as follows:

### 1<sup>st</sup> batch of groups

- July to September 2012: Awareness campaign, assistance to group formation, training on group management (already completed);
- October to December 2012: Provision of technical skills training, of financial and business management training, of marketing, market access and commercialization training (in progress);
- January to March 2013: Assistance in the elaboration of the investment and business plans, of the loan request and loan application;
- April 2013 to March 2014: Recurrent follow-up and monitoring of groups, provision of additional technical assistance and advisory services on demand from groups and members, refresher training courses on technical skills and marketing aspects. Assistance to activity group leaders and group members to access new loans.

### 2<sup>nd</sup> batch of groups

- July to September 2013: Awareness campaign, assistance to group formation, training on group management;
- October to December 2013: Provision of technical skills training, of financial and business management training, of marketing, market access and commercialization training;
- January to March 2014: Assistance in the elaboration of the investment and business plans, of the loan request and loan application;
- April 2014 to March 2015: Recurrent follow-up and monitoring of groups, provision of additional technical assistance and advisory services on demand from groups and members, refresher training courses on technical skills and marketing aspects. Assistance to activity group leaders and group members to access new loans.

### 3<sup>rd</sup> batch of groups

- July to September 2014: Awareness campaign, assistance to group formation, training on group management;
- October to December 2014: Provision of technical skills training, of financial and business management training, of marketing, market access and commercialization training;
- January to March 2015: Assistance in the elaboration of the investment and business plans, of the loan request and loan application;
- April 2015 to March 2016: Recurrent follow-up and monitoring of groups, provision of additional technical assistance and advisory services on demand from groups and members, refresher training courses on technical skills and marketing aspects. Assistance to activity group leaders and group members to access new loans.

### 4<sup>th</sup> batch of groups

- July to September 2015: Awareness campaign, assistance to group formation, training on group management;
- October to December 2015: Provision of technical skills training, of financial and business management training, of marketing, market access and commercialization training;
- January to March 2016: Assistance in the elaboration of the investment and business plans, of the loan request and loan application;
- April 2016 to December 2016: Recurrent follow-up and monitoring of groups, provision of additional technical assistance and advisory services on demand from groups and members, refresher training courses on technical skills and marketing aspects. Assistance to activity group leaders and group members to access new loans.

## PHASING

Considering that 110 groups have already been formed by the Service Provider and considering that a period of follow-up and monitoring of 12 month post-financing is necessary to ensure groups' sustainability and strengthening, the objective of the PMPMD in term of number of groups formed and supported has been reduced from 550 to 360 to be formed over a period of 5 years in 20 Soums of 5 Aimags (Arhangay, Bulgan, Gobi-Altai, Hentii and Huvsgul).

The phasing of group formation during the project five-year is illustrated in the following table:

Beneficiaries	Unit	2012 (1)	2013	2014	2015	2016	Total
Women's groups	Nbr.	110	70	90	90		360

(1) Already formed.

## **Annex 3 Development of Pasture User Groups and Pasture Management**

### **Introduction**

1. The project for Market and Pasture Management Development has the goal 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 and improve the livelihoods of poor herders and Soum and Aimag centre households in the project area, which is in line with the Mongolian Government's "Mongol Livestock" and "Co-operatives Development" programmes. The project target group includes women and men from herder households and from Soum and Aimag centre households, as well as female headed households and households listed by the local government (Soum, Bagh) as poor and vulnerable in the project area (Aimags of Huvsgul, Arhangai, Bulgan, Khentii and Gobi-Altai).

The project consists of 3 components: (i) Market Development (covering value chain development, small enterprise development, loan guarantee schemes); (ii) Pasture Management and climate change adaptation (covering formation of pasture herder groups, pasture management plans, climate change adaptation); and (iii) Project Management and Policy Support.

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

3. The main objectives of the supervision mission were to ensure that there is no delay in the project start up activities and the development objectives of the projects are being met and to satisfy IFAD's fiduciary responsibilities. The specific purposes of the mission were to a) assess the implementation progress of the projects, including assessment of the achievement of outputs by component and outcome indicators as per the log frame of the projects; b) help identify and remove implementation bottlenecks and constraints, and c) discuss and agree on a set of actions to be implemented by the projects in the next six to twelve months period.

4. This document a) provides an overall assessment and description of key challenges; b) discusses constraints and opportunities by component outcomes; c) findings and recommendations relevant for the component of the consultant for pasture management and climate change adaptation and of other mission members have been summarized and incorporated into the revised Terms of Reference for the Service Provider, provided as Appendix 1.

### **Overall Assessment and Key Challenges**

5. The tasks ahead under the component "Pasture Management and Climate Change Adaptation" are complex, including institutional development for pasture management and for value chains/marketing, research, research related to climate change adaptation, value chain and market analysis, investments for pasture management and forecasting, piloting new approaches such as index-based livestock insurance for groups, and comprehensive training programs related to all the above. The successful implementation requires completed, expert teams for implementation, and close coordination with local governments and the sub-component on "Micro-Enterprise Development."

6. Project activities under the component have commenced and important steps have been undertaken in identifying and supporting groups, in setting up a local implementation structure and in identifying investment support need for pasture management. However, it is crucial that a coherent set of activities is implemented in the upcoming 12 months in order to develop and support local institutions, develop and deliver a capacity building program, to enhance project ownership by local stakeholders, and to ensure appropriate targeting. Close cooperation with the component on "Market Development" will be required. PMU and Service Provider need to complete their staff/consultant teams with expertise that covers the full set of skills and experiences required to undertake all tasks.

7. A key challenge discussed during mission among beneficiaries, Service Provider, PMU and government authorities is pertaining to the conceptualizing and development of appropriate institutions to manage pastures sustainably through the determination of rights and responsibilities of pasture users, and to support herders' livelihood development through value addition and marketing by cooperatives defined in government policies and programs. While the regulations for and support to cooperatives is defined, a policy on regulation of pasture use is still lacking and this poses a constraint for developing institutions for natural resource management and for effective implementation of pasture management plans.

8. The project design describes support to 120 groups in 30 project Soums; only approximately 25 % of households in one Soum would be covered by project activities. Participatory planning and joint decisions by many herders/pasture on a groups pasture area are a prerequisite for successful project implementation; preferably, all herders of the Soum, along with Soum/Bagh authorities should be involved in the decision making process. It is therefore desirable that as many households as possible are involved in the project in a selected Soum. This issue was discussed thoroughly and it was agreed that the selection of the next 60 groups (and the decision whether new groups will be in the same Soums as the currently supported groups or whether new Soums will be added. For the above reasons, it is recommended that no further Soums be added, and that rather, resources will be used to address the challenges of developing a functional institutional framework in the current Soums.

9. Different projects, including the previous IFAD supported Rural Poverty Reduction Program, have supported the development of Soum level institutions for pasture management; there is a consensus for the need of such an institution that facilitates collaborative management between local government and herders, but different formal and informal mechanisms are being supported. Existing structures in the project soums should be evaluated, and further supported if stakeholders agree. Such institutions may also take on a role as apex institution for marketing; this needs to be assessed with local stakeholders.

10. Funding and capacity of the Soum level Livestock Unit to support and work with groups are limited as the implementation of the Livestock Program is at an early stage and at Soum level no separate, dedicated budget. Developing a functioning mechanisms for a herders' extension service remains a challenge but is an important aspect for sustainability; different approaches have been implemented previously, with support by IFAD and other donors, but results in reaching herders are still weak. Experiences with "herder's advisors", as suggested by the Service Provider, are a promising concept whereby herders with outstanding skills and experiences are developed in their capacity to function as extension agents/trainers for their own groups. The officers of the Livestock Program will have to play an important role if this approach is to be implemented successfully, but there are shortcomings, to various degrees, in funding and capacity of the livestock units.

11. While the basic structure for local implementation of activities has been established, there is a need to develop the capacity of local coordinators and prepare them for their tasks including strengthening institutions of herders for pasture management, production/processing and marketing, to play a key role in developing local cooperation, in organizing trainings and disseminating information on the project.

12. Local project ownership is weak at present, and this is mainly due to the deliberate delay of the start-up workshops until new local governments are in place. Local elections are scheduled for November 21, 2012, and the workshops should be undertaken as soon as possible once the new local governments are in place. Appendix 2 provides a suggested program and process for the workshops to make them an effective means in promoting project ownership, local cooperation and sustainability. They will be an excellent opportunity to review activities so far and to jointly address the key issue of delineating pasture areas for groups, to evaluate potentials for value chain development and to discuss the status and potential for developing institutions (cooperatives) for production and marketing, to identify priority training and investment needs and cooperation and co-financing opportunities. The advent of needs-based budgeting practices, decentralization of budget planning, and the expected significant increases of Soum Development Funds offer opportunities to promote sustainable financing for project supported outcomes.

13. Close cooperation with the service provider for the sub-component "Micro-Enterprise Development" (UMPSC) is crucial; it has been agreed that the total number of beneficiary groups to be developed/strengthened by UMPSC is to be reduced from 550 to 360, and that a number of groups emerging from activities under the "Pasture Management and Climate Change Adaptation Component" would be included. Such groups are not (necessarily) womens' groups; they are likely to be "sub-groups" of pasture user groups and may have men as members. Education on opportunities for accessing loan and training, and trainings need to be provided by UMPSC to these groups, while MSRM identifies the groups.

### **Effective Grassroots Organizations for Pasture Management and for Income Generation**

14. Strengthened institutions are a key to sustainable outcomes of the project and to sustainable livelihoods. The project is supporting the implementation of the government programs "Mongolian Livestock" and "Cooperatives Development". The priority areas of these programs include pasture and risk management, breeding, marketing, animal health and governance/policy, and the support of production and marketing cooperatives. However, strong local institutions for natural resources/pasture management are a prerequisite for sustainable results in all these areas.

15. While the project aims at establishing cooperatives that can benefit from subsidies and other support from the government programs, there is still an immediate need to build the basic grassroots institutions for pasture management in order to maintain the resource base for livestock husbandry. This effort of institutional development does take time, and institutional strengthening through trainings and facilitation still needs to be empha-

sized in the early phase of the project in order to promote participation and equity, and cooperation and co-management among herder institutions and Soum governments; this will ultimately support the sustainability of the institutions for processing and marketing. The project design document had described a series of activities for strengthening institutions; while the complete process probably cannot be followed due to budgetary and time constraints, the basic steps provided there should still be reflected in the process that the service provider follows to identify and strengthen groups. It is important that work is undertaken with the participation of all members of a group, not only with leaders, that there is a “council” of several members to support the leader and that council and leader receive training in leadership and management skills.

16. The suggested steps in the design document included: 1) Training/Workshop for Soum Government Officials on Project Design and Approaches (Targeting), and Climate Change Impacts and Adaptation; 2. Start-up Workshop in Soums; 3. Training for Facilitator Candidates (completed); 4. Selection and Contracting of local (completed) Capacity Building for Local Facilitators; 5. “Face-to-Face” Meetings and Trainings with all herder households; 6. Initial Meeting with Households in Local Area (in the indicative pasture unit/area of the group); 7. Workshop in Soum to discuss Establishment of PUs and PUGs; 8. Meetings in (indicative) pasture unit/area, with all Households using the area; 9. Bag Meetings and Recognition of (preliminary) PU boundary by Soum Khural; 10. Meetings to establish Pasture User Groups (PUGs) with all households in the PU; 11. Training for PUG Members in Organizational Development; 12. Training in Pasture Management for all PUG Member Households, with all PUGs established so far; 13. Preparation of a 3-Year Pasture Land Management Plan, and of a Annual Activity Plan with all PUGs established so far.

17. A Participatory Monitoring & Evaluation System should be developed with pasture herder groups, to serve as a tool for group based planning and for measuring progress on group level; while the Soum level targets will directly link to the project M&E system, the group based P M&E will reflect indicators developed by the group members, and it will link to the M&E system of the livestock program. The livestock program has 5 priority areas including pasture/risk management, animal health, breeding, marketing and policy/governance. Currently, 52 indicators are identified to monitor implementation of the livestock program. Working with the officers of the livestock unit, suitable indicators for group level can be selected from the set of indicators; for pasture management, additional group indicators can be identified that would measure, on household level, seasonal moves, otor, pasture rotation, access to key resources (water, otor areas), fodder production, animal health, productivity, income and expenditures. A baseline for member households as well as for households not organized as group would later provide a valuable source of information to assess impacts of group management of pasture. Collaborating with the project on this activity may serve as a capacity building activity for livestock unit officers and assist in developing the M&E system of the livestock program towards a more results-based system.

18. With the “Cooperatives Development Program”, the “Livestock Program”, and the “Herder Policy” the legal and policy environment for grassroots institutions is being developed. There are significant opportunities to provide policy support through the implementation of the project and to generate lessons on pasture land management that are relevant for local government to regulate pasture land, either under existing land law or under a separate pasture law eventually. To this end, model areas/groups should be identified, in close cooperation with local government, where innovations such as index based livestock insurance with groups, but also schemes of pasture use fees could be piloted and documented. The investments and other support provided by the project can be used as incentives to pilot such innovations, and to put into practice important measures such as managing pastures within carrying capacity.

New guidelines for the development, implementation and M&E of Soum pasture land management plans are currently being developed by ALACGAC (Agency for Land Affairs, Construction, Geodesy and Cartography) (with support by the ADB assisted TA ADB R-CDTA 7534 “Strengthening Carbon Financing for Regional Grassland Management in Northeast Asia”); their completion and approval is expected in the near future, and these should be utilized in planning with groups and Soums.

### **Completed Investments to Implement the Pasture Management Plans**

19. The service provider identified investment needs for 60 groups, including 2 wells in each Soum. The Technical Working Group recommended using funds originally allocated for building winter shelters for the construction of new fodder and hay storages in “otor<sup>26</sup>” areas. As “otor” is an important adaptation practice and government has a role to play in the management of otor areas and service provision thereof, IFAD agreed to this re-allocation of funds.

20. A tentative investment plan has been drafted with the PMU and MOF; it includes (i) 120 solar power units during the project life, costed at 1.0 million MNT/unit. As solar panels are private goods of one herder household, the project will provide the initial 30 units already purchased in 2012; and the provision of the remaining 90 units will be discussed at mid-term review; (ii) exploration and drilling of 46 new deep wells (average over 50 meters) at 15 million MNT/unit; (iii) fencing for 100 water sources/springs (20 per target Aimag at 1.12 million MNT/unit (direct transfer to groups); (iv) funds originally planned for construction of winter shelters were re-allocated for hay/fodder storage/winter preparation in otor areas (100.000 USD for one hay/fodder storage in each of the five

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<sup>26</sup> “Otor” is a traditional practice - a migration in autumn typically with herds of large livestock to fatten animals for the winter, or a migration to specially reserved areas (otor areas) in times of winter disasters like “Dzud” or other extreme events.



target Aimags); (v) fencing of haymaking areas (6 ha/group) for 120 groups at 0.3 million MNT/unit; (vi) 120 sprinkler/irrigation systems at 10.0 million MNT/unit; (vii) 120 small tractors with haymaking accessories at 10.0 million MNT/unit (the actual contract price is 5.0 million MNT per unit purchased in 2012); and (viii) Construction of water harvesting points, 1 unit per Aimag at 100 million MNT/unit. The PMU will report the above to the Steering Committee for endorsement and submit a request to IFAD for review and approval by 31 October 2012; the allocation of funds is to be finalised when the financing agreement is amended.

21. During the field visit and discussions with groups, mission members noted that groups expressed investment needs different from those planned by PMU and MoIA; the investment support can not be standardized but the service provider should organize meetings with group members and identify investment needs of groups on a case by case basis and through joint decision making.

22. The investment priorities of the project supported groups should be consolidated and screened by the PMU according to the government policy for public investment and reflected in the AWPBs and procurement plans from 2013 onwards. Suggestions for any additional investment items should be discussed during the mid-term review mission.

23. The provision of private goods, such as tractors and solar panels, is recommended to be used as an opportunity to establish or strengthen group funds. The service provider will assist groups to develop a schedule of repayment such as: 80 % of the tractor's cost will be paid by the recipient member household into the group's revolving fund. The less than 100 % repayment, interest free, in 2 installments (for example) will serve as an incentive for the recipient to share the use of the tractor. Fund management procedures will be developed with the service provider's support. The group might also decide to increase the amount of the revolving fund through voluntary or mandatory savings from its members. Among others, possible uses of the revolving fund include guarantee against a bank loan; contribution to an investment complementary to a bank loan; micro-credits to members for productive and/or non-productive investments. The service provider will also assist each group to establish bookkeeping, oversight and activity/financial reporting.

24. The Service Provider will discuss with local governments contributions from the Soum Development Fund; the funds are to be increased from central budget and a portion is to be utilized for pasture management.

### **Improved Knowledge to Adapt to Climate Change Impacts**

25. Many of the GEF funded climate change adaptation activities<sup>27</sup> are yet to start. Conceptually it is justified to concentrate on strengthening groups prior to major investments and training efforts, but it is important that these GEF funded activities should be implemented as soon as possible and included in the AWPBs of 2013 onwards for implementation. It was agreed that the trainings on animal health and breeding will be organized in 2013. The service provider should undertake an assessment with groups and with the Soum Livestock units to identify needs to effectively organize the training; officers of the livestock unit should be developed as ToT (Trainers of Trainers) with the perspective that they will work closely with the "Herder's Advisors – herders that will be the direct "extension" workers for their groups. The capacity of the Soum level officers to deliver the trainings has to be assessed, and if necessary, Aimag level trainers or trainers from other institutions (research, academic, NGO) have to be sub-contracted.

26. Two specialized services originally planned to be sub-contracted by the PMU have been included under the contract of the service provider; they include "Piloting of Herder Group Participation in Index-Based Livestock Insurance" and "Applied Research on Pasture and Climate Change Adaptation Issues (such as drought resistant species)".

27. Index Based Livestock Insurance (IBLI) is an appropriate risk reduction strategy for herders facing economic loss from extreme weather conditions in Mongolia. The IBLI is based on indices of livestock mortality whereby participating herders receive insurance payments based on livestock mortality in the soum irrespective of individual losses. Thus herders retain the incentive to save their own animals under any weather conditions. The IBLI has been operating since 2006 in four aimags. Insurance coverage will be extended to a further five aimags in 2011 and to the whole country by 2012. The scheme is targeted at individual herders. However, it is possible that significant benefits could be achieved for group based IBLI as a result of reduced transaction costs and linking of premiums/benefits to the adoption by PHG herders of sustainable pastoral management practices. The service provider most likely will have to sub-contract for technical assistance to study and if appropriate develop a group based insurance product and arrange for the IBLI programme to pilot its application in one project aimag.

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<sup>27</sup> E.g. (i) Training (Veterinary technicians, Well maintenance technicians and Vocational training - poor herders); (ii) Increasing Adaptive Capacity (Ecological pasture management guidelines & monitoring and specific Climate Change Adaptation investments); (iii) Climate change awareness raising (Development of materials, Soum level training and Aimag CCAR events); (iv) Index based livestock insurance; (v) Meteo data for climate monitoring (Equipment and Training); and (vi) Ecological information for Livestock Early Warning System (Equipment and Training).

28. Likewise, the service provider will sub-contract the activity “Applied Research on Pasture and Climate Change Adaptation Issues (such as drought resistant species)” unless capacity and expertise within the organization is proven.

29. Project design describes the output “Improved Rangeland Monitoring and Forage Forecasting System in project area”, and 3 activities to achieve the output: a) establish baseline and improve data collection network (in collaboration with LEWS – Livestock Early Warning System) in pasture units of at least 60 PUGs; b) up-grade meteorological equipment (in project Soums); c) provide equipment for LEWS. The design document also suggested that “the project will use the LEWS forage monitoring database to provide a baseline against which project pasture management performance can be measured. Data from pasture monitoring sites established within the project PHGs for project performance monitoring will also be supplied to increase the density of source data for the LEWS.”

30. The service provider should review these proposed activities and the rationale for them, and determine with PMU, MoIA and local stakeholders whether they meet their needs and priorities, and to assess their significance to achieve project objectives. Also a cost assessment for these measures should be undertaken. The LEWS project has the objectives to develop risk management technologies to provide drought and winter disaster Livestock Early Warning System (LEWS) to improve rural business in the livestock sector of the all regions in Mongolia. The expected outcomes are to:

a) Develop a forage monitoring system that provides near-real time spatial and temporal assessment of current and forecasted forage conditions for Mongolia livestock producers;

b) Develop a nutritional monitoring system for sheep, goats, cattle, camels and horses that provides an assessment of the nutritional balance, changes in body conditions and optimal fodder interventions for Gobi livestock producers;

c) Develop an appropriate information and communication infrastructure and analysis delivery system to provide herders, and local/regional government officials with information on current and forecasted forage conditions and animal nutrition that will assist them to make timely and specific management decisions.<sup>28</sup>

31. Core activities of LEWS are 1) in site monitoring, 2) in forage early warning analysis, and 3) in dissemination and training in the use of the products.

32. If the main objective for the proposed activities is to establish a baseline on pasture condition for M&E of project progress, then collaboration with LEWS may not be necessary. Every Soum has one or more pasture monitoring sites, and pasture land monitoring and assessments are undertaken by NAMEM (National Agency for Meteorology and Environment Monitoring) and ALACGAC, based on data collected by their respective line officers at Soum level and by professional organizations that are contracted on a regular basis. To establish a baseline and to improve the quality of data, capacity development and practical support for work in the pastures of project supported groups could be discussed with the agencies and with the Soum level officers. Project support would include trainings (on the job), support in field work (fuel etc.), and up-grades of equipment if necessary.

33. The mission member met with the deputy director general of NAMEM (Mr. Tseesodroltsoo Dashdorj) to discuss possible support needs for monitoring and/or forecasting; the representative of NAMEM stated that there is no or little need to up-grade the (standard) local meteorological monitoring stations in Soums, or the analysis and processing of data; however, there is a great need to improve outreach to herders. Weather forecasts based on NAMEM information are broadcast by national; many rural households do not use radio any more, or they cannot receive national radio as they only receive FM radio stations. Practical solutions to enhance capacity of herders to receive up-to date information include the installation of a high antenna/repeater in the Soum so rural areas can receive local FM radio, and the local station broadcasts the information from NAMEM. Several popular TV stations do not broadcast up-to date, accurate forecasts based on NAMEM information. For weather forecasts, outreach to herders needs improvement, using TV, radio or mobile phone services. Project support could address this by working out appropriate approaches/technologies for the local areas (other projects, for example SLP/WB, have supported herders with radios and barometers).

34. If forage monitoring and forecasting at LEWS standards and methodologies is the objective of the proposed activity, close cooperation with LEWS is required, and the agency now operating LEWS should be sub-contracted for the services by the service provider or contracted by the PMU directly. The service provider and/or PMU should determine with MoIA and local stakeholders what are the priority needs and objectives, undertake a cost-benefit analysis and formulate suggestions on how to proceed.

35. For the production and dissemination of public awareness and information on climate change impacts, the service provider should evaluate existing materials, curricula and publications. Several donor assisted programs (including FAO, ADB) and national NGOs and research institutions have produced or are in the process of generating training materials, handbooks and guidelines on measures in pasture and livestock management for climate change adaptation. A needs assessment for additional material should be undertaken; it may be more prudent to

<sup>28</sup> [http://mofa.gov.mn/coordination/index.php?option=com\\_k2&view=item&id=33:%D0%BC%D0%B0%D0%B0-%D0%BD-%D1%8D%D1%80%D1%81%D0%B4%D1%8D%D0%BB%D0%B8%D0%B9%D0%B3-%D1%83%D1%80%D1%8C%D0%B4%D1%87%D0%B8%D0%BB%D0%B0%D0%BD-%D0%BC%D1%8D%D0%B4%D1%8D%D1%8D%D0%BB%D1%8D%D1%85-%D1%82%D0%BE%D0%B3%D1%82%D0%BE%D0%BB%D1%86%D0%BE%D0%BE&lang=en](http://mofa.gov.mn/coordination/index.php?option=com_k2&view=item&id=33:%D0%BC%D0%B0%D0%B0-%D0%BD-%D1%8D%D1%80%D1%81%D0%B4%D1%8D%D0%BB%D0%B8%D0%B9%D0%B3-%D1%83%D1%80%D1%8C%D0%B4%D1%87%D0%B8%D0%BB%D0%B0%D0%BD-%D0%BC%D1%8D%D0%B4%D1%8D%D1%8D%D0%BB%D1%8D%D1%85-%D1%82%D0%BE%D0%B3%D1%82%D0%BE%D0%BB%D1%86%D0%BE%D0%BE&lang=en)

use funds to support printing and dissemination of existing materials, or to use different media to spread the information.

### **Income Generation and Poverty Reduction Improved**

35. The territorial approach to the group organization for pasture management promotes inclusiveness. All households in the area are included. Benefits to poor households can be derived in several ways, however it is crucial that project support maintains a pro-poor approach with all activities. Employment for poor herders as “assistants” to wealthier herders has become more common in recent years and it is a motivation for the formation of “herder groups.” The wealthier households with larger herds gain the needed labor support, and the poorer household with few or no livestock gain an income. However, incomes are often very low, such as payment in rice and flour; there may be no formal agreements, and typically there is no social or health insurance. On the other hand, the households with fewer livestock benefit from being a group member by being able to send their livestock with the herds of other group members, they may be paid in livestock (receiving offspring of livestock they herd for others, or other arrangements), be able to process dairy products of the livestock they herd, have access to group-based resources (equipment) and to loans from group funds. Also, labor division whereby some households engage in activities such as vegetable growing, while their livestock moves with other herds, is beneficial for all including the poor. The wealthy, whose income is mainly from selling livestock/meat and cashmere, tend to have less time/need to process dairy; therefore this is an income generation activity typically undertaken by average and poor households, and women.

36. It is crucial that from the on-set of group formation, pro-poor approaches are applied, i.e. that the inclusion of poor households is promoted, that agreements on pasture land management promote equity and equitable access to key resources, and that labor relations are fair. The latter point is emphasized in the “Herder Policy” of the government. Activities to promote pro-poor approaches should include a) with social officer and bag governor, identify poor, very poor and female headed households, b) during participatory appraisal and planning, discuss with these households opportunities and provide information on training opportunities; c) encourage sub-group formation for income generation, d) facilitate linkage to service provider for micro-enterprise development and access to loan and provide trainings in processing/production and business skills; e) discuss on group and Khot Ail level vocational training opportunities and facilitate selection of trainees (young adults); f) assist in identifying training opportunities and with placement in employment; and g) activities in identifying value chain opportunities and evaluation of ongoing activities in income generation that could be enhanced through project support. As much as feasible these activities should be undertaken in close cooperation with the service provider for micro-enterprise development.

### **Effective and Efficient Component Management**

37. While the planned activities to establish the local implementation structure (appoint local coordinators, renovate office space for local project offices, equip local offices and provide motorbikes to local coordinators) have been undertaken on schedule, further efforts are important in order to successfully implement the comprehensive set of activities of institutional development, pastureland management planning, research and piloting innovations (such as index based livestock insurance for groups) and developing income generation and marketing. Very close cooperation with Soum government and local officers is necessary, and commitments to responsibilities in training, facilitation and investment support of local governments need to be secured. Local facilitators need to address this as a priority; local coordinators need to receive further training and need supervision in their work; their positions are full time, and based in the local area. Work plans for them need to be developed with clear targets. To this end, responsibilities within the service provider team for working with the local coordinators need to be set. The service provider’s team of experts (organization staff or consultants/associates from other institutions) needs to be completed and to cover expertise in pasture management and ecology, climate change, community development and pro-poor approaches. The planned position in the PMU to oversee the component on Pasture Management and Climate Change Adaptation, and work with the service provider, needs to be filled as soon as possible.

## Appendix 1

### Revised (2012) Terms of Reference

#### Service Provider - Component “Pasture Management and Climate Change Adaptation”

##### Scope of Work

The Service Provider will implement the activities on pasture management and climate change adaptation in close cooperation with the local governments, in particular with the officers of the Livestock Unit responsible for the implementation of the Mongolian National Livestock Programme and the officers responsible for pasture land management planning.

For the work with groups (Pasture User Groups, Herder Groups for Income Generation) the service provider will prioritize work with groups already established (by the previous IFAD supported RPRP or by other initiatives, and with the existing cooperatives in Gobi Altai). While strengthening the grassroots organizations for pasture land management, the Service Provider will pursue the long term objective to develop herder groups for income generation into primary cooperatives for production/services and to promote secondary, soum level marketing cooperatives; both these organizations will be able to benefit from supportive legislation and policies.

During the project duration, the Service Provider will adjust, if necessary, the implemented model of joint pastureland management by user groups to the policy framework as it develops. Throughout implementation, capacity building for officers of the Livestock Unit, and other Soum government officers involved in pasture management planning and evaluation, will be an important part of activities, by including these officers in formal and on-the-job training activities.

The Service Provider will facilitate planning, deliver capacity building, develop and deliver information and awareness raising materials, identify needs for training, research and investment support. The Service Provider will, in collaboration with the PMU M&E officer, develop a monitoring system and performance indicators for groups to measure progress at year end. The monitoring system will be in line with the log frame and contribute to overall project progress monitoring.

The Service provider is responsible to the PMU staff officer for Pasture Management and Climate Change Adaptation, and will submit semi-annual and annual progress and financial reports. The Service Provider will ensure that a local implementation structure is in place as agreed, i.e. one local coordinator in each project Soum, and that local staff and local governments are familiarized with the project design and approach and staff is trained for their tasks.

The Service Provider will establish their complete team of experts/consultants with a set of skills to address the tasks in institutional development, pasture and risk management and climate change issues, value chain and cooperative development and to ensure appropriate targeting, participation, and poverty and gender focus. All staff/consultants will have clear ToR and lines of accountability and responsibility. On national level, the Service Provider's performance and results will be subject to evaluation by the PMU, and the Steering and Technical Committee. The Service Provider will agree on and establish an effective local oversight mechanisms at Soum level (Soum Khural, or Oversight Committees established by SLP/WB).

The Service Provider will identify opportunities to support the development of 3-5 value chains, and will work closely with the Service Provider implementing the component on Market Development.

The Service Provider will, through the local coordinators, work closely with local governments, and with other relevant government and donor assisted projects and programs in order to share experiences, benefit from results, resource materials and lessons learnt by other projects and to avoid duplication.

##### Core Activities for Component Implementation

The Main Service Provider will undertake core activities such as:

- Evaluation of existing groups, and/or formation of groups, and institutional strengthening of grassroots organizations for pasture management
- Facilitating a participatory and inclusive process of the delineation of pasture units of the pasture groups
- Development and assistance in implementation of pasture land management plans of pasture user groups as integral parts of the Soum pasture land management plan
- Identify, through participatory analysis and planning with group member households and Soum government, investment support needs (such as wells, tractors, fencing, and other) to implement pasture land management plans of groups.

Develop co-financing agreements with local government for implementation of the plans.

- Evaluating, strengthening and/or formation of common interest herder groups for income generation and small enterprise development; promote development of these groups into formally established production cooperatives.
- Promote the establishment of Soum level marketing cooperatives.
- Introduction of the project design and targeting approach to local governments
- Design and deliver training program to (selected members of) pasture user groups on pasture and livestock management (including breeding, animal health).
- Develop, in cooperation with local government officers, modality of training program for pasture user groups through development of appropriate “extension” model based on “herder’s advisors”.
- Establish project/consultant team of 5 specialists and local coordinators in each project Soum. Provide ongoing capacity building for local coordinators. Identify potential needs for additional expertise.
- Establish and maintain an M&E system with groups and on Soum level that contributes to the overall project M&E system as agreed with the M&E officer.
- Develop and submit work plans and provide reports including quarterly and annual progress report in Mongolian and English within the 15<sup>th</sup> of the first month of the next quarter. The reports will cover:
  - Progress against Annual Work Plan targets
  - Cumulative progress data against the project log frame target
  - RIMS data
  - Management arrangements
  - M & E information
  - Annual financing statement and report of expenditures in agreed formats and standards.
  - Cumulative financing status by each year of implementation
  - Information on implementation of recommendations provided by the relevant stakeholders and Supervision Mission
  - Problems/challenges encountered and recommendations/suggested solutions

The service provider may be required to provide additional information upon request by the PMU at other times.

#### Specialized Services

The following specialized services will be undertaken under the contract of the Main Service Provider:

- Training for herders/PUGs (and local government officers) on pasture land management and monitoring, rangeland ecology and climate change awareness/adaptation measures.
- Support in developing pasture management plan; identification of investment support needs to implement pasture management plans.

Investments including tractors with hay making accessories, sprinklers, drilling of new wells, drilling, water harvesting constructions, and hay shelter and fodder storage will be provided directly through the PMU; other investments, such as for fencing of natural springs and hay making areas will be provided through the NGO and activities will be implemented by the pasture user groups themselves.

Investment needs are to be identified on a case by case basis for each group, following a needs assessment and participatory planning with all members and using a specially developed questionnaire with all member households.

For investments/equipment that is provided to one group member, the service provider will, with the groups, develop selection criteria and a procedure on utilization/management of the equipment and on repayment.

Repayment (such as 80 % of the costs) will be into a group fund. The service provider will assist the group in establishing their fund, develop guidelines for fund management; and assist the group in monitoring repayment of the investment cost by the recipient of the investment. The service provider will assess training needs in fund/financial management, advice the group on establishing a council/committee to oversee fund utilization and provide relevant training to the group’s fund manager(s).

- Training/facilitation of groups for organizational strengthening; Support in developing group objectives and internal organization with all group members; support in participatory planning with all group members; training for group leaders in leadership/management skills. The service provider will identify opportunities to organize experience sharing with herder organizations for pasture management established and operating under different modalities, internal organization and contractual/informal agreements on pasture use or possession.

60 groups have been selected/supported in 2012 in 15 Soums in 3 Aimags; until the MTR (mid-term review) Mission, these 60 groups are to be further strengthened. A total of 120 groups is to be strengthened until the end of the project (2017). During the Mid Term Review (2014), a decision will be made whether the additional 60 groups will be from the same Soums as the current ones, or whether these new groups will be in other Soums.

- A series of trainings at Aimag or Soum level in livestock health, (including recognition of diseases), nutrition and breeding to improve livestock productivity and resilience to climate change impacts and extreme events.

Participants (herders) will be nominated by their PUG members (about one per PUG); Officers of the Livestock Unit, and private veterinarians will be invited to contribute to and participate in aspects of the trainings.

- Part of the training program is the development of the “Herder’s Advisor’s” who will serve as “extension” workers for their groups. Livestock Officers will be trained as trainers for the advisors.

Selection of and capacity development for “herders’ advisors”, individuals among the herders who have special knowledge and skills in areas such as pasture management, animal health, fodder production, breeding or others and can perform “extension” services. In their capacity development, the Service Provider will work closely with the Livestock Unit, and provide training to the officers of the unit to enable them to function as trainers for the “herder’s advisors”.

- Support to improved pasture monitoring in the project areas and to forecasting to herders on weather and forage conditions. This should be in conjunction with capacity building for the relevant officers at soum level and within existing procedures for pasture monitoring and assessment. Define, with MoIA and local stakeholders support needs (equipment to enhance Soum level capacity for climate monitoring and forecasting); and determine whether the support will be for LEWS (Livestock Early Warning System) data collection for LEWS, and forecasting of LEWS data to herders, or for conventional standard/methodology for pasture land monitoring and assessment.
  - Training in well maintenance and repair for up to two experienced technicians from each soum. A local Water Point Manager from among the PUG members will be assigned responsibility for maintenance of each well and provided with appropriate training. (Soum technicians will be trainers for water point managers)
  - Vocational training targeting young adults from poor herding households that will provide skills and qualifications to enable participants to seek non-herding employment. Training preferences will be identified by PUG members during the participatory planning process taking into consideration available information on the nature of skills in demand in local, regional and national employment markets (such as driving, carpentry, welding, handcrafts, mechanics, others) One person, preferably a young adult, from a poor household within each qualifying khot ail (within a PUG) will be eligible to participate in a project- supported vocational training program. A counterpart contribution will be required. Experienced and qualified trainers are to be contracted to provide training based on needs identified by the project. Efforts will be made to link vocational training graduates with the job market, preferably within the Aimag.
  - Development of awareness raising materials on climate change issues related to Mongolian pastoral conditions, and on the role of decision-makers and citizens in disseminating such information, promoting and implementing climate change adaptation measures. Dissemination of training/awareness raising materials for elected representatives and key officials at Soum and Aimag level in conjunction with key events such as khural meetings and/or public events.
  - Development of information/training materials on climate change impacts, and on adaptation measures in pasture and livestock management; the development of material is to be preceded by a desk review of existing public awareness materials, guidelines and training curriculums that have been produced with the support of other projects in order to avoid duplication. Develop a plan on using broadcast media, as well as for publishing materials in forms of brochures.
  - Develop special program on climate change impacts, and on adaptation measures in pasture and livestock management to be broadcast at least 4 times/yr.
  - Prepare information about project design, activities, results and lessons learnt to local governments and communities, and disseminate through local and national media.
  - Identify lessons learnt relevant for implementation of government policies and programs
- In addition, the following specialized services will also be undertaken by the Service Provider, if necessary through sub-contracting individual specialists or organization(s) with the relevant skills and experiences.
- Piloting of PUG participation in Index-Based Livestock Insurance
  - Applied Research on Pasture and Climate Change Adaptation Issues (such as on drought resistant species)

In coordination with the Service Provider for the Component on Market Development, the Service Provider will

undertake the following activities in support of poverty reduction and income generation through access to loans, cooperative establishment and through value addition and marketing:

- Market Analysis (Value Addition to Livestock Products, and other natural resources) on Aimag and Soum level in the project area, investigate emerging opportunities in niche markets and developing and marketing products. Identification of 3-5 value chain opportunities.
- Sensitization/Information of Target Group on project support opportunities for income generation. During on-going work with pasture group members, sensitization will begin, with careful targeting of poor households, women and particularly poor female headed households.
- The target group will be provided with information on support opportunities through the project (access to loans, loan guarantee, training). The service provider and local facilitators will discuss and evaluate opportunities with individuals, or with groups that already have begun or planned joint activities.
- Trainings for Herder Groups in processing skills (dairy, wool, hair, others)
- Trainings for Herder Groups in business skills (business planning, book keeping, accounting, marketing)
- Training and support for Herder Groups in establishment as Cooperatives (processing, services).
- At Soum level, provide information and support, facilitate discussions among all interested groups to assess opportunities and constraints for the establishment of marketing cooperative and provide follow-up support as needed.

## Appendix 2

### Proposed Program for Start-up Workshops in Project Soums

#### Objectives

The objectives of the start-up workshop is to promote sustainable results by developing a common understanding of the project design and approaches, building functional linkages and cooperation and creating local project ownership.

More specifically, the objectives are that by the end of the workshop, participants have:

- learnt about project design (goal, objectives, outcomes and activities), targeting approach and gender and poverty focus
- reviewed activities, results and challenges of project implementation to date
- reviewed implementation structure and oversight mechanisms in the Soum
- received information on relevant and new legislation/policy and programs (including the “Mongolian Livestock Program”, “Cooperatives Program”, “Herder Policy”, Budget Law, Agricultural Commodities Exchange Law, others) and their benefits
- discussed the project approach to support herders’ institutions - for pasture management and for processing and marketing, - their functions, legal status/registration and how they relate to each other (pasture user groups, sub-groups for income generation, soum wide marketing organizations)
- discussed the project approach to group pasture management, and agreed on a process to identify groups and delineate their pasture areas in the Soum
- evaluated the institutions (all existing groups) for pasture management, and identified opportunities, challenges and support needs for developing pasture user groups
- identified priorities in capacity development and investments for pasture management
- discussed needs and opportunities for co-financing investments in pasture management (from project support and Soum Development Funds)
- evaluated the institutions for production/services and marketing (all existing cooperatives, SME) and identified opportunities, challenges and support needs for developing cooperatives
- evaluated opportunities and challenges for value addition and marketing in the Soum
- discussed possible targets for component implementation for the Soum
- agreed on next steps for establishing base lines and for implementation

#### Program (One Day)

##### Opening (Soum Governor)

##### Session One – Introduction to Project Design and Implementation, and to related Government Programs and Policies

- Presentation on project design (goal, components and sub-components, outcomes, main planned activities, project area, duration, implementation structure, oversight mechanisms, activities to date) (Service Provider)

##### Q&A, clarifications

- Presentation on targeting approach, poverty and gender focus (Service Provider)

##### Q & A, clarifications

- Presentation on Livestock Program, Cooperatives Program and relevant legislation and policies (by respective local government officers, Aimag government representative and/or officer of MoIA)

##### Q&A, clarifications

##### Session Two – Soum Development, and Project Implementation

- Presentation on Soum Development Plan and Governor’s Action Plan (Soum Governor)

##### Q&A, clarifications

- Presentation on local project implementation (role of local coordinator, activities in the Soum to date, local oversight mechanism) (Local Coordinator)

##### Q&A, discussion

##### Session Three – Local Institutions for Herders’ Livelihoods

- Brief review of concepts of pasture user groups, sub-groups, and cooperatives (primary and secondary)



(Service Provider), and of challenges to develop institutional framework that serves all functions effectively

- Plenary discussion on developing institutions in the Soum
- Agreement on process to define groups and pasture areas
  
- Working Groups

Working Group on Pasture Management

- Evaluate existing/potential groups for pasture management (strengths and weaknesses)
- Capacity development needs (herders, local government)
- Priority Investment needs for pasture management

Working Group on Value Addition and Marketing

- Evaluate existing/potential groups/entities engaged in processing and marketing (strengths and weaknesses)
- Identify opportunities for value chain development
- Capacity development and support needs (herders/producers, local government)

Plenary- Presentations and Discussions

Session Four – Integrating Project Activities in Soum Development

Summary/conclusion on priorities, opportunities and challenges and on integrating project implementation in Soum development (service provider, Soum governor)

- Plenary Discussion
- Possible targets for project implementation in the Soum
- Commitments (by local coordinator, Soum government, groups/representatives)
- Agreement on next steps

Closing of the Workshop

Participants

Soum Governor, Vice Governor, Khural Chair, Land Officer, Officers of Livestock Unit, Social Officer, Meteorological Technician, Environmental Inspector, Bag Governors, women and men from country side and Soum center households representing all levels of wellbeing, leaders of existing and emerging pasture groups, leaders of existing and emerging cooperatives, representatives of small enterprises, representatives of women's groups/initiatives, PMU team member responsible for component on pasture management and climate change adaptation, Service Provider team (coordinator and team of experts), local coordinator, officer of MoIA, representative of Aimag government (agricultural department), representative of UMSPC, plus other resource persons and facilitators if not facilitated by service provider. In total, participation of women at least 50 %.

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**Annex 4 Summary of Tentative Investment Proposals**

No.	Investment Item	Parameter	Unit	Quantity	Estimated Unit Price in MNT	Estimated Unit Price in USD	Total Estimated Amount in MNT	Total Estimated Amount in USD	Financing Plan	Agreed Action
<b>IFAD Loan Financing</b>										
1	PMU Office Renovation in 2012.	Undertaken in 2012, but withdrawal application pending. Hence expenditures are only estimated.	Lumpsum	1	3 000 000	2 182	3 000 000	2 182	100% against IFAD Loan Cat I. Civil Works	WA pending to confirm the exact amount of expenditures.
2	PMU new office renovation in 2013	Two rooms in the new building.	Lumpsum	1	3 000 000	2 182	3 000 000	2 182	100% against IFAD Loan Cat I. Civil Works	To include in the AWPB and Procurement Plan of 2013.
3	Water points/Deep wells > 50 meters	2 new wells per Soum	No.	46	15 000 000	10 714	690 000 000	492 857	100% against IFAD Loan Cat I. Civil Works	1. Increase No. of Soums for provision of water points from 15 to 23 within the same 5 target Aimags. 2. PMU to identify the additional 8 Soums in the 5 project target Aimags and inform IFAD. 3. Additional targets to be agreed during MTR.
<b>Total Estimated Costs:</b>								<b>497 221</b>		
<b>Total Allocation for Category I. Civil Works:</b>								<b>480 000</b>		
<b>Balance:</b>								<b>(17 221)</b>	<b>-3.6%</b>	<b>Reallocation required from Unallocated.</b>
4	Vehicle	PMU Vehicle	Unit	1		70 000		70 000	100% against IFAD Loan Cat II. Vehicle, equipment	Reconcile accounts to charge the total amount 100% to IFAD loan, instead of USD 60 000 to GEF and USD 10 000 to IFAD Loan.
		One more vehicle to be provided to MCF Unit for Loan Guarantee Fund	Unit	1		70 000		70 000	100% against IFAD Loan Cat II. Vehicle, equipment	Reallocation of more funds to Cat II. Vehicle, equipment required.
5	Tractors with hay raking equipment (new)	1 unit per PHG.	Unit	120	5 000 000 - 10 000 000	USD 3 571 for 15 units procured in 2012 & USD 7 142 for remaining 105 units.		803 370	100% against IFAD Loan Cat II. Vehicle, equipment	1. 15 units procured in 2012, with 105 units to be procured. 2. Procurement method to be included in the Procurement Plan. 3. Government decision to require beneficiaries for partial repayment (% to be decided), with the repayment going to a PHG revolving fund for the benefit of the PHG members. 4. Operational procedures to be prepared by the mission together with the NGO service providers.
6	Aircon for new PMU offices in 2013.		Unit	2		600		1 200	100% against IFAD Loan Cat II. Vehicle, equipment	To include in the AWPB and Procurement Plan of 2013.
<b>Total Estimated Costs:</b>								<b>944 570</b>		
<b>Total Allocation for Category II. Vehicle, Equipment:</b>								<b>255 000</b>		
<b>Balance:</b>								<b>(689 570)</b>		<b>Reallocation required from Unallocated.</b>
7	Hay and fodder storage (new replacing winter shelters)	Govt decision not to have winter shelters at Soum level and change to hay and fodder storage. 2 units per Aimag	Unit	10	70 000 000	50 000	700 000 000	500 000	100% against IFAD Loan III. Inputs a. Tools, materials, inputs	Construction of one storage started in 2012.
8	Water harvesting points (new)	1 unit per Aimag	Unit	5	100 000 000	71 429	500 000 000	357 142.86	100% against IFAD Loan III. Inputs a. Tools, materials, inputs	PMU to prepare a participatory project menu for Cost Table 3. Pasture Herders Group Plan Implementation and Climate Change Adaptation - I Investment Cost. C. 2. Specific Climate Change Adaptation Investment.
9	Solar power panel (Renewable energy - poor herders)	30 units procured in 2012.	No.	30	280 500	2012 price: USD 204 per unit. 2013 onwards price: USD 715 per unit.	8 415 000	6 011	100% against IFAD Loan III. Inputs a. Tools, materials, inputs	1. PMU to make an assessment of the potential demands. 2. Government decision to require beneficiaries for partial repayment (% to be decided), with the repayment going to a PHG revolving fund for the benefit of the PHG members. 3. Operational procedures to be prepared by the mission together with the NGO service providers. 4. PMU to undertake an assessment of the use of and demand for solar panel and submit the report to IFAD by 30 June 2013. 5. Additional targets to be assessed during the MTR.
<b>Total Estimated Costs:</b>								<b>863 154</b>		<b>1 001 000.00</b>
<b>Total Allocation for Category III. A. Tool, Materials:</b>								<b>1 545 000</b>		
<b>Balance:</b>								<b>681 846</b>	<b>44%</b>	
<b>Total Reallocation from the Unallocated Required for the IFAD Loan:</b>								<b>672 349</b>		
<b>GEF Grant Financing</b>										
10	Motorcycles	15 units procured in 2012, & additional 15 units to be procured.	Unit	15	2 016 667	1 440.48	30 250 000	21 607	100% against GEF Cat II. Vehicle, Equipment.	Reconcile accounts to charge the total amount for the 15 procured units to GEF financing.
11	Office Equipment		Unit	15	2 016 667	1 440.48	30 250 000	21 607	100% against GEF Cat II. Vehicle, Equipment.	Reconcile accounts to charge the total amount for the 15 procured units to GEF financing.
<b>Total Estimated Costs for GEF Cat II. Vehicle and Equipment:</b>								<b>43 214</b>		
<b>Total Allocation for GEF Cat II. Vehicle and Equipment:</b>								<b>60 000</b>		
<b>Balance:</b>								<b>16 786</b>	<b>28%</b>	
12	Spring source fencing (new)	20 per Aimag	No.	100	1 120 000	800	112 000 000	80 000	100% against GEF Cat III. Inputs a. Tools, materials, inputs	1. PMU to make an assessment of the locations. 2. PMU to prepare a participatory project menu for Cost Table 3. Pasture Herders Group Plan Implementation and Climate Change Adaptation - I Investment Cost. C. 2. Specific Climate Change Adaptation Investment.
13	Hay fields (pasture fencing (new)	1 unit of around 6 ha per PHG	Unit	120	300 000	214	36 000 000	25 714	100% against GEF Cat III. Inputs a. Tools, materials, inputs	PMU to prepare a participatory project menu for Cost Table 3. Pasture Herders Group Plan Implementation and Climate Change Adaptation - I Investment Cost. C. 2. Specific Climate Change Adaptation Investment.
14	Sprinklers (new)	1 unit per PHG	Unit	120	2 500 000	1 786	300 000 000	214 286	100% against GEF Cat III. Inputs a. Tools, materials, inputs	30 units procured in 2012, with 90 units to be procured.
<b>Total Estimated Costs for GEF Cat IIIa. Tools, materials and inputs:</b>								<b>320 000</b>		
<b>Total Allocation for GEF Cat IIIa. Tools, materials and inputs:</b>								<b>340 000</b>		
<b>Balance:</b>								<b>20 000</b>	<b>5.9%</b>	
15	Pasture Management Service	2012. Formation and capacity building of 60 PHGs; 2013. Consolidation of 60 PHGs set up in 2012 for vocational training and capacity building; 2014. 60 new PHGs; 2015 and 2016. PHG consolidation, vocational training and capacity building.	Year	4.5		2012: USD 110 000; 2013: USD 160 000; 2014: 112 000; 2015 & 2016: USD 120 000 each.		589 000	2012: 30% against IFAD loan and 70% against GEF grant. 2013: Consolidation of 60 PHGs set up in 2012 for vocational training and capacity building = 100% against GEF grant. 2014: 60 new PHGs = 30% against the IFAD loan and 70% against GEF grant. 2015 and 2016: PHG consolidation, vocational training and capacity building = 100% against GEF grant.	TORs to be revised for the entire project duration, with detailed cost breakdowns by year, with extension of contract pending evaluation of the performance of the service provider(s).
<b>Total Estimated Costs for GEF Cat IIIb. Economic Development Costs:</b>								<b>589 000</b>		
<b>Total Allocation for GEF Cat IIIb. Economic Development Costs:</b>								<b>930 000</b>		
<b>Balance:</b>								<b>341 000</b>		
16	Mobility	Govt decision not to have any mobility								
17	Rehab of broken wells									To be decided during the MTR

## Annex 5 Procurement Review

### Introduction

1. An IFAD loan of SRD 7.25 million (equivalent to USD 11.5 million) on highly concessional terms for the Project for Market and Pasture Management Development (PMPM) was approved by the IFAD Executive Board in May 2011 and became effective on 26<sup>th</sup> August 2011. The Project Completion Date is 30<sup>th</sup> September 2016 and the Loan Closing Date is 31<sup>st</sup> 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 group will include women and men from herder households and from Soum and Aimag centre households; and female headed households and households classified by the local government as poor and vulnerable in the lists at Bagh and Soum level, in the Aimags of Huskhul, Arhangai, Bulgan, Henti and Gobi-Altai.

2. The project consists of 3 components: (i) Market Development (covering value chain development, small enterprise development, loan guarantee schemes); (ii) Pasture Management and climate change adaptation (covering formation of pasture herder groups, pasture management plans, climate change adaptation); and (iii) Project Management and Policy Support. The total project costs are USD 18.4 million, including the IFAD loan of USD 11.5 million, a GEF Grant of USD 1.5 million and government counterpart contribution of USD 0.9 million. The Project Lead Agency is the Ministry for Food, Agriculture and Light Industry (MOFALI), which changed its name as the Ministry of Industry and Agriculture (MOIA) after the 2012 national elections. A Project Management Unit (PMU) reporting to the State Secretary of MOIA is in charge of the overall coordination and management of the project, while the actual project implementation will be carried out by contracted service providers together with the target group members.

3. An IFAD Supervision Mission<sup>29</sup> visited the project from 24<sup>th</sup> September to 5<sup>th</sup> October 2012. The main objectives of the supervision mission are to ensure that the development objectives of the projects are being met and to satisfy IFAD's fiduciary responsibilities, with a focus on: (i) Assess the implementation progress of the project, including assessment of the achievement of outputs by component and outcome indicators as per the logframe of the project; (ii) Help identify and remove implementation bottlenecks and constraints; and (iii) Discuss and agree on a set of actions to be implemented by the project in the next six to twelve months period.

4. The mission<sup>30</sup> met and discussed with the officials and staff of the project and its implementing partners, including the Ministry of Finance (MOF), MOIA, the Ministry of Labour (MOL) for the Employment Generation Fund and the SME Development Fund, the Financial Regulatory Committee, the Mongol Bank, the KHAN Bank, the Savings Bank, XAC Bank, GIZ-supported Credit Guarantee Fund project, UNDP-supported Guarantee scheme and Desertification project, JICA-financed Development Fund, the Millennium Challenge Account project, the Union of Mongolian Production and Service Cooperatives (UMPSC), the Mongolian Society for Range Management (MSRM), and the Agency for Meteorology Hydrology and Environmental Monitoring. The mission undertook field visits to selected Soums in Aimags of Arhangai.

5. The majority of the 2012 planned procurement has been undertaken during the course of the current fiscal year on a timely basis except for the construction of deep wells and the procurement of a service provider for value chain development under the Market Development Component. The postponement of the well construction to 2013 was attributed to a failure in identifying a potential successful bidders in 2012, while the RFP (request for proposal) for the value chain service provider was cancelled as it failed to identify an experienced service provider. A detailed 2012 planned vs actual procurement plan is attached as annex 1 of this working paper.

6. The delay attributed to the identification of the value chain development services was due to the non availability or lack of local expertise (NGO's and consultancy firms) in this area of specialisation which was established well before commencement of the procurement process. Given the the Project was aware of this, the strategy the Project should have adopted should have been to recruit international expertise along with local individual experts kick start the component activities. The Mission has recommended the recruitment of a team of individual consultants working together with a local NGO.

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<sup>29</sup> The mission consisted of Mr. Youqiong Wang, Country Programme Manager of IFAD for Mongolia; **Thierry F. Mahieux, Rural Finance and Value Chain Specialist, who worked in Mongolia from 9<sup>th</sup> to 29<sup>th</sup> September 2012; Sabine Schmidt, Pasture Management Specialist, who worked in Mongolia from 19<sup>th</sup> September to 5<sup>th</sup> October 2012;** Shankar Kutty, Procurement Adviser; APR; Irene Li, Finance Office, CFS, who worked in Mongolia from 20<sup>th</sup> to 27<sup>th</sup> September 2012; and Tawfiq El-Zabri, Results-based-management Advisor, APR. Mr. Dalai Dalantainyam, Project Director of the PMU, Ms S. Gun-Uyanga, M&E Office of the PMU and representatives from Mongolian Society for Range Management (service provider for pasture management component) and Union of Mongolian Production and Service Cooperatives (service provider for micro enterprise development component) joined the mission during its field visits.

<sup>30</sup> See Appendix 10 for Persons Met.

The team of individual consultants will comprise of an international or national expert in value chain development as the team leader, a local bank/financing specialist and of a roster of qualified short term local technical experts (at least one local expert for each value chain to be identified and supported by the project)

7. In 2012 based on the current national procurement regulation and law, all procurement activities of the Project is undertaken either by the Project PMU or the Lead Implementing Agency. In accordance with the provision of the June 2011, amendment to the national procurement regulations and law, as of November 2012 or early 2013 procurement responsibilities of the Government of Mongolia would be transferred from the Ministries and Line Agencies to the National Procurement Agency of the Government of Mongolia as the oversight and regulatory body of the Government of Mongolia. It is envisaged that this Agency would initially be staffed with approximately 60 procurement professionals of multi disciplines which will be responsible in the preparation of the bid documents, bidding processes, and contracting, while a central evaluation committee would be established to review all bids. The monitoring of contracts and performance management would remain under the responsibilities of the Ministry and Line Agencies. The translation to the procurement law and regulation is attached as annex 2 of this working paper.

8. The revised law also aims to decentralise procurement decision and authority to the Aimag. This would envisage Aimag Governors having key and central role in the decision making processes. The procurement however would be carried out by the Aimag level procurement unit which is to be established. In the event, this move impacts the Project procurement, then ideally a risk assessment should be undertaken to identify risk and propose mitigation measures.

9. The mission recognises the value additions and advantages of the centralised procurement functions however given the relative small value and non complex procurement undertaken by this project, the mission proposes that the lead agency for the Project, requests for a deferment of the decision to transfer the procurement responsibilities of this project to the Central Procurement Agency until such time the Central Procurement Agency is fully operational and is able to undertake and meet the demands of national and project procurement avoiding any significant delays in activities of the project.

10. While a deferment is sought, if the Central Procurement Agency, concludes it can for any specific procurement, demonstrate efficiency and economy in undertaking project-related procurement, which avoids any undue implementation delays and to achieve value for money, then the procurement should be undertaken through the central procurement agency.

11. The planned average budget of 15 million MNT for well construction is not sufficient for Gobi Altai Aimag due to the remoteness of the Soums and the required drilling depth. Therefore, the budgets for Khentii, Bulgan and Arkhangai Aimags were reduced to about 14 million MNT and the Gobi Altai Aimag budget was increased to 16.5 million MNT. The use of a mining company active in the area has been suggested by local government. The mining company has the technical capacity and drilling equipment to undertake the deep well construction based on a cost sharing proposal to be negotiated with local government. The PMU should explore this option with the local government of Gobi Altai Aimag requesting to IFAD for provide its no objection to "directly contracting" the mining company to undertake the well construction. The other possible options for the project include the procurement of all 6 wells in Gobi Altai Aimag through a single bid package to encourage economies of scale and competitive participation of the construction firms nationally or as a last option, the construction of these wells through a direct contract with the only construction firm in Gobi Altai Aimag capable of undertaking the construction.

12. The discussion with the mining companies must be then followed up by a detailed proposal from the PMU/Aimag authorities to IFAD. The proposal shall outline the areas of collaboration, responsibilities and procedures. The PMU should also include any any identified risk and mitigation measure identified in the collaboration proposal.

13. Review of various the procurement activities during 2012, mission observed lapses in controls and documentation processes when procuring goods through local shopping. These lapses are attributed to inadequate specifications for goods and equipment; non availability of documentation and records which form a formal process of obtaining quotation from supplier and vendors; and the inadequate evaluation of the quotations based on the specification and quotations received.

14. The above is in reference to the procurement of computers, printers, digital cameras, office furniture and motorcycles for the PMU and the Soum Coordinators identified in the 2012 procurement plan. While the PMU did obtain the minimum 3 quotations required for these procurement from various vendors and suppliers a detailed examination of the records identify that specification for some of these equipment were never formally provided nor communicated to the vendors. Verbal communication rendered vendors to provide variation in the specification which render the quotation received as non comparable against any established technical specification. Attached as annex 3 is the outlined procedures for international and national shopping, which is to be followed by the PMU.

15. The single Project vehicle purchased through a competitive bidding process was imported from Japan at a cost of USD 63,478.24 inclusive of freight. However, the distributor (Bodi Automotic LLC) that submitted the bid priced the vehicle as USD 88,888.88 (40% more than the import price) or MNT 122,000,000.00 exactly matching the budgetary provision established for the vehicle. The procurement committee's decision to award the contract to Bodi Automotic LLC (the only sole bidder to participate in the bidding) was based on the merit that Bodi Automotic LLC was the technically qualified lowest bid received. The vehicle purchased is not covered by an international 3 year or 36000 mile, Toyota warranty but a local warranty issued by Bodi Automotic LLC for one year which does not clearly establish the legal provision of the warranty cover.

16. Procurement of 15 motor cycles was undertaken through a local shopping exercise. The 15 motor cycles were imported from China at a cost of USD 9,124.00 by the agent B&G Company. The procurement awarded to B&G Company, the distributor of Honda motorcycles based its lowest submitted quotation of USD 18,181.80 or MNT 27,000,000.00 is almost 100% above its import price. The mission also noted the custom duties amounting to approximately MNT 586570.05 for the motorcycles have not been deducted and has been incurred against IFAD resources. The motor cycles purchased are not covered by an international, Honda warranty but a local warranty issued by B&G Company for 6 months which does not clearly establish the legal provision of the warranty cover.

17. The project should exercise options to procure high value items which are generally imported into the country through international shopping or international competitive bidding rather than opting to pursue local competitive bidding. The comparative advantage here is that goods offered ex-factory or ex-stock demonstrate a clear value for money.

18. The mission was unable to verify if the purchase of other office equipment were exempted from custom duties. The duties paid or exempted were not evident from the documentation maintained by the Project.

19. IFAD procurement guidelines require Borrowers/Recipients to demonstrate efficiency and economy in undertaking project-related procurement, to avoid undue implementation delays and to achieve value for money. Procurement must be well organized, carried out correctly with regard to quantity, quality and timeliness, and at the optimum price, in accordance with the appropriate guidelines, principles and regulations. Processes must be proportionate to the procurement activity, so that the overall cost of conducting the procurement process is minimized and tailored to the size of the budget for the activity being undertaken, while upholding the guiding principles of procurement.

20. In 2012 the Project made significant savings by opting to procure 15 small tractors for hay making and 30 small solar power facilities based on existing government/project framework agreements for the supply of the equipment, which provide the tractors and solar power facilities at negotiated prices lower than market price. While the requirement for additional solar power facilities would be decided at MTR, the project should proceed to procure 105 units of tractors and accessories from 2013 onwards as long as the framework agreements continue to provide these tractors at favourable prices.

21. In the event the comparative advantage of these framework agreements is no longer available then the mission recommends that the Project and the lead project agency pursue to purchase the remaining tractors in a single bid either through international competitive bidding or through international shopping in which economies of scale and staggered delivery could be arranged. This would also ensure to reduce the cost of the tractors.

22. The PMU should also ensure a part of its internal controls that the details of the tractors such as the tractor engine numbers, chassis number and the accessory serial numbers are tracked and delivery and receipt of the tractors and accessories are acknowledged by the target beneficiaries. The PMU should also establish mechanisms to clearly establish procedures/guidelines on the ownership/registration, fair use and the maintenance of the tractors and accessories. These internal controls on delivery and receipt of goods and equipment purchased and transfer to target beneficiaries is not limited to only tractors but all goods and equipment purchased for and transfer to the target beneficiaries.

23. The Project currently maintains a contract register as at of its Procurement Plan and is it adequately monitoring the contracts and performances.

24. The Mission thanks the Lead Programme Agency and Project Management Unit for the assistance and support provided to the mission during the course of our stay in Mongolia.



LAW OF MONGOLIA

Dated: June 9, 2011

Government House, Ulaanbaatar

AMMENDMENT TO LAW OF MONGOLIA ON PROCUREMENT OF GOODS, WORKS AND SERVICES WITH  
STATE AND LOCAL BUDGET

Article one. The following articles, clauses and provisions shall be added to the law on procurement of goods, works and services with state and local budget. Such as:

Provision 5.1.23 of article 1/5:

“5.1.23. “general contract” means a contract with agreed terms and conditions made with one or more suppliers, service providers or contractors on provision of regular use goods, works and services with the duration of up to 3 years”

Provision 8.11 and 8.12 of article 2/8:

“8.11. Tender can be announced to procure goods, works and services based on a general contract.

8.12. Procedures and guidelines for making a general contract shall be approved by the Government member in charge of budget issues”.

Provision 28.7.5 of article 3/28:

“28.7.5. A tender that received high score in quality and assessment comparison for procurement of hospital devices and equipment shall be considered as “best”.”

Provision 34.1.7 of article 4/34:

“34.1.7. If deemed necessary, procurement of special type of medicine and hospital devices with regard to national health safety directly or through international organizations.”

Article 13/52<sup>1</sup>:

“Article 52<sup>1</sup>. State inspector in charge of procurement procedures

52<sup>1</sup>.1. Chief state inspector and state inspector for overseeing implementation of procurement activities shall be in state administrative central body in charge of budget affairs.

52<sup>1</sup>.2. When overseeing procurement process, the state inspector in charge of procurement procedures shall exercise the following rights in addition to the general plenary rights stated in provision 10.9 of the law on state inspection and monitoring:

52<sup>1</sup>.2.1. To propose a bidder who is identified as fulfilling the conditions stated in provisions 14.1.4; 14.1.6 and 14.1.7 of this law to be included in the registry of bidders with limited rights;

52<sup>1</sup>.2.2. To make official statement on release of an official who made violations stated in provision 57.2 of this law from public services and to submit the statement to the related organization;

52<sup>1</sup>.2.3. To annul an invalid contract stated in Article 42 of this law;

52<sup>1</sup>.2.4. To annul contracts that transferred contract obligations to a third party without approval of customer or made payments that exceed the amount previously stated in the bidding documents.”

Article two. To make changes to the following sections of the law on procurement of goods, works and services with state and local budget: after “each” in provision 29.1, article 29 add “with justification for not being selected”; after “provide” in provision 52.1.11, article 52 add “approve organization of training for preparation of specialized officials”; before “organization for fair competition and customers’ rights” in provisions 55.3 and 55.4, article 55 add “state administrative central organization in charge of budget affairs,” respectively.

Article three. Below mentioned sections of the law on procurement of goods, works and services with state and local budget shall be amended in the following way:

Provision 24.5 in article 1/24:

“24.5. Tender process shall be organized within 45 days since the opening of the tender, and shall stay valid for the mentioned duration.”

Provision 36.6 in article 5/36:

“36.6. Provision of proposals to detailed list shall be set as minimum 7 working days.”

Provision 36.17 in article 6/36:

“36.17. If tender for consulting services was unsuccessful, consultants’ shortlist shall be made again, and the proposal submission deadline shall be set as minimum 5 working days.”

Provision 39.15 in article 7/39:

“39.15. If the lowest price method is used, proposal submission deadline shall be set as minimum 5 working days.”

Provision 44.3 in article 8/44:

“44.3. Performance guarantee sum can be included in the advance payment guarantee total.”

Provision 46.1.9 in article 9/46:

“To request to put posters in visible to public area for the duration of works and service warrantee period, that contains information on contractor’s brief introduction; contact details; contract amount; finance schedule; work starting and finishing date; and in case of utilities and engineering infrastructure include coverage map.”

Provision 47.5 in article 10/47:

“47.5. Appointment of evaluation panel members and its operational procedures stated in provision 47.4 shall be approved by the Government member in charge of budget affairs.”

Provision 52.1.15 in article 11/52:

“52.1.15. To set procedures for monitoring, evaluation and auditing of customer’s activity, contract performance and quality progress and execution.”

Provision 52.3 in article 12/52:

“52.3. Private and specialized non government organizations as stated in articles 35-39 of this law can be selected through competitive bidding to perform monitoring, evaluation and auditing of customer’s activity, contract performance and quality progress and execution.”

Provision 29.4 and 29.5 in article 2/29:

“29.4. If contract is not possible within the valid duration of tender that is not caused by the customer, the customer shall make a request to the state administrative central organization in charge of budget affairs and once permission is given the tender deadline can be extended once for 30 days.

29.5. The state administrative central organization in charge of budget affairs shall review the request stated in provision 29.4 of this law within 5 working days from the date of receiving and shall make a decision based on documents and information submitted by the customer as well as other clarifications retrieved.”

Provision 32.2 in article 3/32:

“32.2. In case of limited bidding, the customer as stated in provision 52.1.12 of this law shall upload tender invitation on the website and provide interested bidders with equal rights.”

Provision 45.2-45.7 in article 4/45:

“45.2. The following bodies shall be as customers when procuring goods, works and services with state budget financing:

45.2.1. Secretariats of the President and the Parliament of Mongolia, Secretariat of Government, National Security Council, state central administrative bodies and the bodies accountable to the Parliament; Constitution Court; Supreme Court, Office of the Prosecutor-General, General Council of Courts, agencies, organizations, aimag, capital city, soum and district Governor’s Office within the matters in charge of the Prime Minister and Deputy Prime Minister for procurement of overall goods, works and services for own needs;

45.2.2. Aimag and Capital city Governor’s Office when procuring goods, works and services.

45.3. Regarding procurement of goods, works and services financed by the local budget, the customer shall be the respective level Governor’s Office.

45.4. Regarding procurement of goods, works and services of national and regional level as stated in provision 45.5 of this law as well as other procurements except as stated in provisions 45.2 and 45.3 of this law, the customer shall be a professional organization in charge of procurement process.

45.5. The list of national and regional level projects and activities to be implemented by the professional organization in charge of procurement process within the respective budget year shall be approved by the Government within 5 working days since the state budget approval date.

45.6. If deemed necessary, the Aimag and capital city Governor’s Office can transfer its rights stated in provision 45.2.2 of this law to soum and district Governor’s Office.

45.7. If performing works required for Military bases, divisions, border defense organization and prison detention organizations as stated in provision 4.3 of Law on Armed Forces; provisions 1 and 2 in article 33.1 of Law on Border; and provision 120.5 of Law on Court Reinforcement is deemed efficient by the customer, based on permission received from the state administrative central organization, procedures for open tender stated in provision 7.1.1 of this law can be disregarded.”

Provision 47.2.2 in article 5/47:

“47.2.2. Giving the decisions on rights related to tender review, assessment, making assessment decisions and contract signing to the customer. An official authorized to represent the customer as stated in provision 46.2 of this law is prohibited make changes in this decision without cause”

Provision 47.4 in article 6/47:

“47.4. In order to ensure transparency in procurement process, the tender evaluation panel shall consist of minimum two members representing the related sector professional associations; private sector; or non government organization; a citizen appointed by the respective People’s Representative Khural; and an official from the respective Governor’s Office”

Provision 47.9 in article 7/47:

“47.9. Evaluation Panel organization, operation and incentives shall be regulated by guidelines approved by the Government member in charge of budget affairs.”

Article 8/48:

“Article 48. Planning of procurement activities

48.1. The customer shall prepare draft plan for procurement of goods, works and services if necessary with technical and economic justifications accompanied with the next year budget proposal and submit it to the respective budget general manager.

48.2. Budget general manager shall prepare compiled draft plan for procurement of goods, works and services within its budget framework and along with budget proposal submit it to the State Central Administrative Body Responsible for Finance and Budget.

48.3. Budget general manager shall provide the professional organization in charge of procurement process with technical specifications, technical and economic justifications, plans and drawings, job descriptions and other required materials related to procurement of goods, works and services stated in provision 45.4 of this law within 10 working days after the date of the state budget approval.

48.4. Budget general manager and professional organization in charge of procurement process shall approve the general plan for procurement of goods, works and services within 10 working days after the date of the state budget approval and submit it to the State Central Administrative Body Responsible for Finance and Budget.

48.5. The Customer shall announce the procurement plan to the general public through mass media within a month after the date of the state budget approval.



48.6. Procedures for planning of procurement processes shall be approved by the Government member in charge of budget affairs.”

Article 9/53:

“Article 53. Professional organization in charge of procurement process and its authorities

53.1. Professional organization in charge of procurement process is the Government Implementing Agency responsible for organization and implementation of procurement activities authorized by this law.

53.2. Shall have units under aimag, capital city and district Governors, which are responsible for organization and implementation of procurement activities related to goods, works and services to be financed by state and local budget.

53.3. Appointment and resignation of unit director under aimag and capital city Governor shall be done by the respective aimag and capital city Governor in consultation with the director of professional organization in charge of procurement process; as for unit director under district Governor, the appointment and resignation shall be decided by the respective district Governor in consultation with the capital city Governor respectively.

53.4. Directors of professional organization in charge of procurement process and its units shall have no criminal background, have worked in public service minimum 10 years, out of which minimum 3 years shall be related with procurement activities.

53.5. Professional organization in charge of procurement process shall have the following duties and responsibilities in addition to rights and responsibilities of customer stated in this law. Such as:

53.5.1. provide units of procurement process with professional and methodological support and oversee its' activities;

53.5.2. organize activities that ensure favorable working conditions and social security of its staff;

53.5.3. review and summarize the results of implementation of laws and legislations on procurement activities, and submit proposals to the State Central Administrative Body Responsible for Finance and Budget;

53.5.4. administer a web for posting procurement related information, news, tender announcements and selection results; define and refine methods for uploading tender invitations and other related information on web;

53.5.5. provide customer and bidders with procurement related technical advice and organize related trainings;

53.5.6. implement activities directed to strengthening the capacity of professional organization in charge of procurement process and improving the organization's software and hardware following a general policy and plan;

53.5.7. facilitate activities related with establishment and implementation of a general contract stated in provision 5.1.23 of this law;

53.5.8. other responsibilities related to procurement process stated in this law.

53.6. Procedures for organization, implementation and monitoring activities of professional organization in charge of procurement process shall be approved by the Government of Mongolia.

53.7. Professional organization in charge of procurement process shall have certain percentage of its activities executed by private and/or professional non government organizations and shall organize not less than 20 percent of total tenders to be announced through electronic procurement method.”

Provision 55.1 and 55.2 in article 10/55:

“55.1. If a bidder considers that provision 11.2 of this law is violated or any violations occurred during tender document development that limit fair competition, then the complaint shall be reported to the organization for fair competition and customers interests and if bidder does not agree with customers decision, the customer failed to make decisions within the deadline stated in the law, or in case of complaints related to giving the right to make a contract, the State Central Administrative Body Responsible for Finance and Budget shall be approached within 5 working days prior to bid opening day respectively.

55.2. The State Central Administrative Body Responsible for Finance and Budget and the organization for fair competition and customers interests shall review only those complaints that were submitted prior to contract signing and shall make its final decision within 14 days after receiving complaints.”

Provision 56.1 in article 11/56:

“56.1. Bidder can file a law suit if the complaint is not resolved within the time stated in provision 55.2 of this law, or bidder does not agree with the decision made.”

Article 12/57:

“Article 57. Penalties for violation of this law

57.1. If the violation of this law does not involve criminal liability, the following administrative punishments shall be imposed by the court or an authorized state inspector:

57.1.1. if open tender procedures are not used during procurements with open tender procedures, an official in charge shall be fined with the amount equal to five to ten times of minimum income level;

57.1.2. when defining a tender selection procedure, provisions 8.4; 8.5; and 8.7.1 of this law are violated, an official in charge shall be fined with the amount equal to five to ten times of minimum income level;

57.1.3. if provision 9.2 of this law is violated and the participation of international bidder is limited, an official in charge shall be fined with the amount equal to five to ten times of minimum income level;

57.1.4. when using margin of preference in the bid evaluation, provisions 10.1-10.3 of this law are violated, members of evaluation panel shall be fined with the amount equal to five to ten times of minimum income level;

57.1.5. if tender invitation and other documents are not developed based on procedures, guidelines and formats approved by the State Central Administrative Body Responsible for Finance and Budget, an official in charge shall be fined with the amount equal to five to ten times of minimum income level;

57.1.6. if provisions in article 19 of this law are violated and the tender invitation was announced and tender selection was done prior to development of tender materials an official in charge shall be fined with the amount equal to five to ten times of minimum income level;

57.1.7. if provisions 21.3 and 21.4 of this law are violated during tender announcement, an official in charge shall be fined with the amount equal to five to ten times of minimum income level;

57.1.8. if provision 22.2 of this law is violated, and tender document price is set high with no justification, an official in charge shall be fined with the amount equal to five to ten times of minimum income level;

57.1.9. if provision 24.3 of this law is violated during open tender selection, and the tender proposal submission date is set less than 30 days or provision 36.10 of this law is violated during selection of consulting services, an official in charge shall be fined with the amount equal to five to ten times of minimum income level;

57.1.10. if due to the customer, the contract was not signed within the deadline set in provisions 24.5 and 29.4 of this law, an official in charge shall be fined with the amount equal to five to ten times of minimum income level;

57.1.11. if provision 26.6 of this law is violated, an official in charge shall be fined with the amount equal to five to ten times of minimum income level;

57.1.12. if tender was refused or annulled on the bases other than as stated in provisions 27.1 and 30.1 of this law, an official in charge shall be fined with the amount equal to five to ten times of minimum income level;

57.1.13. if provision 28.2 of this law is violated, and tender evaluation was not performed within the tender valid time without any justification, an official in charge shall be fined with the amount equal to five to ten times of minimum income level;

57.1.14. if the customer conducted an unfair selection of tender, violated provision 29.1 of this law, and gave contract rights to a bidder that was not evaluated as "best", and if violated provision 29.4 of this law by extending the tender deadline, an official in charge shall be fined with the amount equal to five to ten times of minimum income level;

57.1.15. if provision 29.2 of this law is violated, and the contract was made within 5 working days after issue of contract rights, an official in charge shall be fined with the amount equal to five to ten times of minimum income level;

57.1.16. if tender selection special procedures were used in conditions other than as stated in provisions 32.1; 33.1 and 34.1 of this law, an official in charge shall be fined with the amount equal to five to ten times of minimum income level;

57.1.17. if provisions in article 41 of this law are violated, an official in charge shall be fined with the amount equal to five to ten times of minimum income level;

57.1.18. if provision 47.1 of this law is violated and the evaluation panel was not established, an official in charge shall be fined with the amount equal to five to ten times of minimum income level;

57.1.19. if decisions made by the evaluation panel stated in provision 47.2.2 of this law were changed with no grounds, an official in charge shall be fined with the amount equal to five to ten times of minimum income level;

57.1.20. if provisions in articles 48 and 49 of this law are violated, and the procurement plan was not announced, or portfolios were not prepared for the respective tender, an official in charge shall be fined with the amount equal to five to ten times of minimum income level;

57.1.21. if provisions 48.2 and 49.5 of this law are violated, and procurement plan and report were not submitted to the State Central Administrative Body Responsible for Finance and Budget within the deadline stated in the law, an official in charge shall be fined with the amount equal to five to ten times of minimum income level;

57.1.22. if provision 54.4 of this law is violated, and the complaint was not reviewed or resolved within the time stated in the law, an official in charge shall be fined with the amount equal to five to ten times of minimum income level;

57.1.23. if court and other authorized body identified that the state chief inspector or state inspector violated provision 57.1 of this law and if were subject to administrative penalty, then he or she shall be fined with the amount equal to five to ten times of minimum income level;

57.2. if court and other authorized body identified that provision 57.1 of this law was violated twice, customer's general manager, deputy director and evaluation panel members shall be resigned from public services based on decisions made by the respective authorized official;

57.3. if provision 50.1 of this law is violated, an official in charge shall be released from his/her duties based on disciplinary penalty imposed by respective authorized body or official;

57.4. if provision 52<sup>1</sup>.2.2 of this law is violated by state chief inspector, he or she shall be subject to disciplinary penalty as stated in Law on Public Services;

57.5. if court and other authorized body identified that a bidder or other body violated or did not fulfill procurement contract obligations, submitted false information when participating in the bid, conducted an act of fraud or corruption, the issue shall be reported to the State Central Administrative Body Responsible for Finance and Budget and included in the registry of bodies with limited rights to participate in tender."

Article four. To make changes to the following sections of the law on procurement of goods, works and services with state and local budget: "authorized body" stated in provisions 14.1.4 and 14.1.6 in article 14 shall be changed as "state inspector authorized with rights stated in provision 52<sup>1</sup>.1 of this law"; "of authorized body" stated provision 14.5 in the same article shall be changed as "of state inspector authorized with rights stated in provision 52<sup>1</sup>.1 of this law"; "service" stated in provision 20.1 in article 20 shall be changed as "non consultancy

services, consulting services with the value of more than 100 million MNT”; “1.000.000.001” as stated in provision 21.3 in article 21 shall be changed as “10.000.000.001”; “in 36.8.3” stated in provision 39.6 in article 39 shall be changed as “in 36.9.3”; “within January 15” stated in provision 46.1.8 in article 46 shall be changed as “as soon as budget is approved”; “majority of members” stated in provision 47.5 in article 47 shall be changed as “members”; numbering of provisions 36.6-36.15 in article 36 shall be changed as “36.7-36.16”; numbering of provision 44.3 in article 44 shall be changed as “44.4”; numbering of provisions 47.5-47.7 in article 47 shall be changed as “47.6-47.8”; and numbering of provision 52.2.15 in article 52 shall be changed as “52.1.16” respectively.

Article five. Provision 21.4 in article 21 of the law on procurement of goods, works and services with state and local budget stating “more than threshold values as stated in provision 8.1.5 of this law”; and provisions 55.3 and 55.4 in article 55 stating “regarding issues stated in law on competition” shall be eliminated respectively.

Article six. Provision 8.1.4 in article 8 of the law on procurement of goods, works and services with state and local budget; provision 34.1.6 in article 34; provision 34.4 in the same article; provision 42.1.1 in article 42; provisions 52.1.9 and 52.1.10 in article 52; and provision 55.5-55.8 in article 55 shall be annulled respectively.

Article seven. This Law shall enter into force on the 1st of December, 2011.

STAMP

PARLIAMENT SPEAKER OF MONGOLIA

D.DEMBEREL

PARLIAMENT OF MONGOLIA  
RESOLUTION

Dated: June 09, 2011

N:32 Government House, Ulaanbaatar

Some measures for implementation of law

Based on provision 24.6 in article 24 of law on Parliament session rules, the Parliament of Mongolia hereby  
RESOLVES:

1. To assign the Government of Mongolia (S.Batbold) to ensure implementation of the below mentioned activities with regard to approval of law on making amendments to the law on procurement of goods, works and services with state and local budget:
  - 1/ take measures on review, approval and implementation of standards, norms and normative for goods, works and services covering all sectors;
  - 2/ adopt and implement guidelines, stating that standards for goods, works and services shall be the main criteria for tender selection and monitoring of tender execution within the framework of Government procurement activities;
  - 3/ improve monitoring on implementation of standards related to goods, works and services; impose more serious penalties to organizations and officials for violating quality standards.
  
2. To assign the State Budget Standing Committee (D.Khayankhyarvaa) to oversee the implementation of this resolution.

PARLIAMENT SPEAKER OF MONGOLIA

STAMP

D.DEMBEREL

## International or National (Local) Shopping

International or National (Local) Shopping is a procurement method that entails comparing price quotations from several suppliers or contractors (usually at least three) to ensure competitive prices, and is an appropriate method for procuring readily available, off-the-shelf goods or standard specification commodities that are small in value, or simple civil works of small value.

Requests for quotations should indicate the description and quantity of the goods, as well as desired delivery (or completion) time and place. Quotations may be submitted by mail, e-mail or facsimile. The evaluation of quotations shall follow the principles of competition. The terms of the accepted offer are to be incorporated in a purchase order or brief contract.

Under International Shopping, the purchaser is to solicit quotations from at least three suppliers in two different countries. National shopping may be used where the desired goods are ordinarily available from more than one source in the country of the PCU/PMU at competitive prices.

### 1. Steps to be followed for International Shopping (IS) and National Shopping (NS)- Procurement of Goods

- Prepare technical specifications;
- Prepare list of suppliers broad enough to generate good competition but to yield at least three quotations, as required, from at least two different countries (in case of IS); Such list may be prepared based on the past experience, consultation with chambers of commerce, Internet, or direct market research;
- Prepare Request for Quotation (RFQ);
- Send the RFQ to the suppliers on the list;
- Indicate the date of submission of quotes (not less than 2 weeks of the initial request);
- Make sure that the requirement of obtaining a minimum of three quotations has been fulfilled;
- Receive quotations by a deadline, open them and evaluate them;
- Prepare an evaluation report and make recommendation for award of contract;
- Keep the process confidential until the contract has been awarded;
- Finalize the draft Contract/Purchase Order (included in the RFQ and, along with the Conditions of Supply, send to the selected supplier;
- Sign the contract;
- Publish contract award information (the name of the selected supplier, the contract price) in a national newspaper;
- Receive and inspect the goods and make payments as per the purchase order, and
- Keep all documents on file. (Maintaining records reference IFAD Procurement Handbook)

### 2. Steps to be followed for National Shopping (NS)- Procurement of Works

- Prepare Technical Specifications, Drawings, Bill of Quantities etc.;
- Prepare list of qualified contractors broad enough to generate good competition but to yield at least three quotations, as required; Such a list may be prepared based on the past experience, consultation with chambers of commerce, Internet, or direct market research;
- Prepare Request for Quotation (RFQ);
- Send the RFQ to the contractors on the list;
- Indicate the date of submission of quotes (not less than 2 weeks of the initial request);
- Make sure that the requirement of obtaining a minimum of three quotations has been fulfilled;
- Receive quotations by a deadline, open them and evaluate them;
- Prepare an evaluation report and make recommendation for award of contract;
- Prepare the contract and have it signed by the contractor;
- Keep the process confidential until the contract has been awarded;
- Obtain invoices, receipts for payments, etc.; and
- Keep all documents on file. (Maintaining records reference IFAD Procurement Handbook)

### 3. Requirements to be Followed

The following consideration should be kept in view for adopting the shopping procedure:

- Request for quotation shall be written and sent by letter, fax, telex, etc (with proof of receipt and record keeping);
- The request shall include the description and quantity of the goods as well as the required delivery time and place for the goods or services, including any installation/transportation/unloading requirements as appropriate;
- The request shall indicate the date by which the quotations are needed.
- Prices for goods supplied from within the country (including previously imported items) are requested to be quoted EXW (ex-works, ex-factory, ex-warehouse, ex-showroom or off-the-shelf, as applicable)

including all custom and excise duties and sale and other taxes already paid or payable on the raw materials and components; for goods offered from abroad (i.e., not previously imported) prices are requested CIF or CIP basis.

- In case of civil works prices (unit rates) shall be requested inclusive of all taxes and duties payable by the contractor.
- Requests should be addressed to more than three firms that are reputable, well established and are suppliers of the goods or services being purchased, as part of their normal business (after verifying whether those being invited will make an offer or not) to ensure at least three quotations are received; In case unsolicited quotations are received, they may be accepted after carrying out a similar due diligence exercise to verify the nature and reputation of firm.
- Quotation should be submitted in writing i.e., by fax, telex, or letter (copies to be kept for records). Telephone or verbal quotations are not acceptable.
- No bid securities are required.
- Normally, requests for quotes should indicate the expected date of submission of quotes with a minimum of 14 days from the date of issue of request.
- If the Purchaser has not received at least three quotations within the time set, it should verify with the suppliers who have not submitted quotation, whether they intend to do so and how soon (for this purpose the Purchaser should require the acknowledgment of the receipt).
- Quotation should be compared after adding to the quoted price for goods, the estimated cost of inland transportation and insurance, if any, to the final destination. The lowest responsive and technically compliant offer is selected.
- Award decision and its rationale should be documented/ and kept for review by audit by IFAD (or by IFAD's auditors) as needed. The record should contain the list of firms invited, and the list and value of quotations received, comparative statements etc. The documents should clearly show that the award is based on sound technical and commercial criteria.
- Purchase order or contract shall incorporate the terms of accepted offer.

#### 4. Important Aspects of Shopping

Important Aspects	Brief Description
Advertisement	No need for advertisement in newspapers.
Minimum Quotations	3 (three) quotations.
Time for Quotation Submission	Not less than 2 weeks.
Negotiation	There should not be any negotiations either for price or terms & conditions of the quotation submitted with suppliers.
Quotation validity period	the suppliers shall be required to submit Quotation valid for the period specified in the Shopping documents (generally 15 to 40 days).
Bid Security	Not required.
Examination of Quotations.	The PMU Procurement Committee or the Procurement Officer entrusted with evaluation of quotations shall ascertain whether the quotations: Meet the eligibility requirements specified; Are properly signed; Are valid for the period specified in the shopping document; Are substantially responsive (commercially and technically) to the shopping documents; and Are otherwise generally in order.

5. If the supplier meets the above stipulations indicated in the shopping documents, it is determined as substantially responsive and is considered further for evaluation.

## Annex 6 RIMS+ Baseline Survey and Checklist

Terms of Reference

RIMS baseline/impact survey

Dates: xx xxxx 2012

(To be adapted to PMPMD)

The assignment to be carried out by xxx (name of consultant(s)) from xx xxx to xx xxxx 2012 and include the following t:

Implement a RIMS baseline survey with a sampling size of 900 households in five Aimags of Mongolia, targeted by the IFAD-financed project PMPMD in Mongolia. The sample should include beneficiary and non beneficiary households in the above mention project area with the indicators of impact, including a household asset index (as a proxy for poverty) and malnutrition among children aged less than 5 years old. Other key indicators to be reported as needed include female/male literacy, and access to safe water and adequate sanitation. The implementation of the RIMS survey will commence with a training course on the survey methodology for the local supervisors and enumerators as well as the staff responsible for the data entry using the RIMS software. The data collection in the field will follow immediately after the training.

The xxx (name of consultant(s)), experienced in survey methodology (including anthropometry) and fieldwork will conduct the RIMS survey activities in collaboration with the project staff, including:

1. Develop, in consultation with IFAD and project staff, the survey sampling frame.
2. Adjust the standard RIMS impact survey questionnaire to include additional questions for the project baseline survey (provided by an external consultant).
3. Train local supervisors and enumerators as well as the project staff responsible for the data entry using the new IFAD RIMS software.
4. Supervise data collection and data entry for RIMS and baseline surveys.
5. Support the project baseline survey by contributing M&E expertise to it as well as developing joint field questionnaire.
6. Carry out other tasks that relate to the effectiveness and viability of the process.
7. Perform a substantive quantitative analysis of the data collected for the RIMS and other logframe indicators based on the household survey questionnaires, which have been entered into the IFAD computer system by MAFF PSU and provided to the Consultant for this analysis, including the following:
  - a. All of the RIMS Survey data shall first be analyzed through the production of the different reports available through the use of the IFAD RIMS database software. In particular, the values of all indicators that are addressed by this software shall be calculated using the provided RIMS software.
  - b. Export the RIMS Impact Survey data to MS Excel using the export capabilities of the IFAD RIMS Database software. These will be presented in the final report.
8. Finalise all baseline information against each of the RIMS and other logframe indicators as the benchmark data for the project.
9. Upon completion of the post-survey data analysis, the consultant will prepare a Baseline/RIMS Survey report describing and discussing the initial status of the RIMS obligatory and other indicators that would be carefully monitored during project implementation. The report will also summarise the findings regarding the baseline survey results, together with his findings and recommendations for the survey. The electronic version of the report should be sent to IFAD and the project.

Checklist for the Execution of Surveys for Gauging RIMS Mandatory Impact Indicators

Project Name \_\_\_\_\_  
CPM \_\_\_\_\_  
Dates projected From: \_\_\_\_\_ To: \_\_\_\_\_

The numbering of the activities is merely for reference purposes and does not reflect a step-by-step manual.

Activity / Task	Resp.	Lead time days	Comments / Assumptions
<b>I – Determining whether to Undertake Survey</b>			
<input type="checkbox"/> 0. If the project was initiated by a CI and IFAD is not a major financier, then the project doesn't need to report on RIMS indicators: STOP HERE. If IFAD is a major financier, follow on to activity 1.			
<input type="checkbox"/> 1. Check with UNICEF country office whether MICS3 or DHS survey was recently undertaken or is planned.  UNICEF country contacts list: <a href="http://www.unicef.org/infobycountry/">http://www.unicef.org/infobycountry/</a>  MICS3 <a href="http://www.childinfo.org">www.childinfo.org</a> Tel: 212 303 7982  DHS <a href="http://www.measuredhs.com">www.measuredhs.com</a> Tel: (301) 572-0456 Fax: (301) 572-0999 E-mail: <a href="mailto:measure@orcmacro.com">measure@orcmacro.com</a>  If survey is considered suitable, STOP HERE and verify with <b>RIMS focal point</b> . Otherwise, follow on to activity 2.	CPM	2	If another survey qualifies, then will still need to verify whether: <input type="checkbox"/> timing is suitable –coincides with one of three project milestones. <b>Note:</b> subsequent surveys should be ideally carried out at the same time of the year. <input type="checkbox"/> data can be accessed; <input type="checkbox"/> data can be disaggregated for project area (if the project is national, this is not a concern). <input type="checkbox"/> selection process was random (for instance, data is not limited to service provider clients) and reflects rural dimension. <input type="checkbox"/> data includes both asset-based and U5 anthropometric data. <input type="checkbox"/> data on specific project area reasonably matches RIMS methodology  <b>Note:</b> <b>RIMS focal point</b> to provide further details.
<b>II – Identifying Key Parameters</b>			
<input type="checkbox"/> 2. Agree with PMU on logistics, financing and key survey parameters. Announce survey to relevant Ministry.	CPM	7	Inform on: <input type="checkbox"/> Methodology guide <input type="checkbox"/> RIMS documentation <input type="checkbox"/> Survey <input type="checkbox"/> <b>Other??</b>  Agree on and define the following: <input type="checkbox"/> scope: a project at a time or cluster more projects together? For instance, could various projects within the same country/region share PMU M&E staff training as well as the required equipment for cost saving? <input type="checkbox"/> budget and financing of various budget items. <input type="checkbox"/> timeline <input type="checkbox"/> required number of teams, team components and (thereby)



<input type="checkbox"/>				<p>equipment.</p> <p><input type="checkbox"/> procurement / hiring responsibilities and details</p> <p><input type="checkbox"/> training schedule and venue</p>
<input type="checkbox"/>	<p>3. Verify whether equipment can be borrowed locally.</p> <p>To identify local contact, see: <a href="http://www.unicef.org/infobycountry/">www.unicef.org/infobycountry/</a></p> <p>And click on relevant country link</p> <p>If this alternative was possible, skip the following two activities (4 and 5). Otherwise, proceed to alternative activity 4.</p>	<p>CPM, project Or implementing agency CPM?</p>	<p>3</p>	<p>Need to verify whether</p> <p><input type="checkbox"/> models correspond</p> <p><input type="checkbox"/> quantity sufficient</p> <p><input type="checkbox"/> quality adequate</p> <p><b>Suggestion:</b></p> <p><input type="checkbox"/> also ask local UNICEF for contacts of lead consultant candidates (with experience in MICS surveys and/or qualified in anthropometry)</p>
<input type="checkbox"/>	<p>4. Order survey equipment from UNICEF.</p> <p>(i) <b>Uniscales:</b> Ref Code: 0141015</p> <p>(ii) <b>Measuring boards:</b> Ref Code: 0114500</p> <p>UNICEF <a href="http://www.unicef.org/supply/">www.unicef.org/supply/</a> Tel. (+45) 35 27 35 27 <a href="mailto:supply@unicef.org">supply@unicef.org</a></p> <p>If this alternative is plausible, skip the next activity (5). In case UNICEF could not be used and equipment could neither be borrowed nor rented, follow on to the activity 5.</p>	<p>CPM, project Or implementing agency</p>	<p>7 processing  another 35 to 55 days for actual delivery</p>	<p>Lead time assumes MoU was signed between relevant project Ministry and UNICEF / IFAD and UNICEF.</p> <p>(a) 5 sets required (b) 7 sets required (c) 9 sets required</p> <p>1 set of equipment is necessary for each pair of enumerators and includes: (i) 1 Uniscale and (ii) 1 Measuring board.</p> <p>1 extra set of equipment is required as buffer.</p> <p><b>Note</b></p> <ul style="list-style-type: none"> <li>✓ prices vary according to exchange rate as well as transport options (air, sea, rail and truck).</li> <li>✓ minimum order value of USD 5 000</li> <li>✓ lead time will also vary considerably according to transport options</li> <li>✓ supplies are uncertain</li> </ul>
<input type="checkbox"/>	<p>5. Order the equipment from alternative source(s)</p>	<p>CPM, project Or implementing agency</p>	<p>2 to 21</p>	<p>Suitable equipment might be found in medical supplies store.</p> <p><b>Scales</b> 2 types of Scales are required to replace the UNIScale model: (i) Scale for infants. Look for "Salter" scale, where the infant is suspended in a special pair of shorts. (ii) Scale for older children. Look for digital scales accurate to at least one decimal. Before purchasing the scales, line them up and test them by having several people check their weight. There shouldn't be more than 0.1 or 0.2 variation between scales.</p> <p><b>Measuring Boards</b> Measuring boards should be at</p>

			<p>least 120 cm in measuring length. Make sure the boards are safe for children.</p> <p>Alternatives should be thoroughly selected so as not to jeopardise data quality</p> <p>Note: when salter scales are not available, the alternative approach is to measure mother with baby and then mother alone to deduct weight of younger infants.</p>
<input type="checkbox"/>	6. Identify and hire lead consultant and/or implementing agency	CPM or project	<p>7 days processing</p> <p>5 working days normally required for IFAD hiring process computed in lead time.</p> <p>Lead consultant hired for 50 days: include training and preparation, survey execution and report writing.</p> <p>Lead consultant should be experienced in survey methodology, including anthropometry (preferably with experience in MICS and/or DHS). Would preferably also be literate in the Access programme.</p> <p>Assumption in lead time computation is that consultant is easily identifiable from IFAD/local UNICEF contacts.</p>
<input type="checkbox"/>	7. Questionnaire translation  <b>Note:</b> only if neither English, Arabic, French nor Spanish is local language.	CPM, project or implementing agency	<p>5</p> <p>From English to local language and independently back-translated (for a check on local usage and meaning)</p>
<b>III – Training for the Survey</b>			
<input type="checkbox"/>	9. Prepare training material and verify availability of training tools required (video-player, PowerPoint projector, and so on)		<p>2</p> <p>Include (but not limited to)</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> PowerPoint slides – hard and soft copy</li> <li><input type="checkbox"/> Videos</li> <li><input type="checkbox"/> RIMS documents</li> <li><input type="checkbox"/> Anthropology briefs</li> <li><input type="checkbox"/> Clipboards</li> <li><input type="checkbox"/> Pencils</li> <li><input type="checkbox"/> Projectors</li> <li><input type="checkbox"/> Flipcharts</li> </ul>
<input type="checkbox"/>	10. Train project staff and enumerators		<p>3 to 6</p> <p>Number of days of training required hinges upon:</p> <ul style="list-style-type: none"> <li>(i) Are many project surveys clustered together?</li> <li>(ii) Enumerators hired: are they experienced with anthropometry?</li> <li>(iii) Is it culturally acceptable to work throughout the weekends?</li> </ul> <p>Includes:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> training for PMU project staff and supervisors</li> <li><input type="checkbox"/> training for enumerators</li> </ul>

			<input type="checkbox"/> Questionnaire pre-testing to verify local understanding	
<b>IV - Survey Execution</b>				
<input type="checkbox"/>	11. Construct the sampling frame		1	Assumes population data from the project area is readily available.  Household census data available in some countries can be facilitate sampling  Follow directions on "RIMS Tools for Preparing a Survey." / RIMS manual
<input type="checkbox"/>	12. Prepare the fieldwork plan		1	Assumes a detailed and recent map of the project area is available.
<input type="checkbox"/>	13. Hire local project staff		7 days	Assumes local staff was previously identified: additional 21 days to identify local staff are suggested in total lead time computation.  Local project staff hired for relatively fewer days (20 days, training included).  (a) 2 supervisors; 2 drivers; and 8 enumerators (b) 3 supervisors; 3 drivers; and 12 enumerators. (c) 4 supervisors; 4 drivers; and 16 enumerators.  Supervisors are assumed to be from PMU staff? Were "recruited" in Senegal.  Enumerators Must be at least 50% female Qualifications: ✓ ideally experienced health workers or in hh surveys ✓ fluent in local language.
<input type="checkbox"/>	14. Collect data	Enumerators	14	Will require questionnaires, clipboards and other stationary, anthropometric equipment, mobile phones (i.e. cards), automobile, etc.
<input type="checkbox"/>	15. Undergo data entry	Data entry person	7	Assuming no software compatability problems and the RIMS programme works smoothly.
<input type="checkbox"/>	16. Analyse data	Lead consultant	(5 + 15 with overlap)	
<input type="checkbox"/>	17. Prepare report	Lead consultant	15	
<input type="checkbox"/>	18. Finalise and submit report	Lead consultant / CPM	5	<input type="checkbox"/> Lead consultant submits draft review <input type="checkbox"/> CPM comments <input type="checkbox"/> Changes are undertaken by lead consultant and final report is submitted.
<b>V - Survey Management and Control</b>				
<input type="checkbox"/>	19. Train/provide detailed procedures for all the activities enlisted above	PT, RIMS Focal Point & ICT	n/a	

<input type="checkbox"/>	20. Supervise all the activities enlisted above	I - CPM II - CPM & PMU III - Lead Consultant IV - Lead Consultant	n/a	
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Brief list of useful links

DHS and MICS3

[www.measuredhs.com](http://www.measuredhs.com)  
[www.childinfo.org](http://www.childinfo.org)

Anthropometric Equipment

[www.pronutrition.org/files/Anthropometric.pdf](http://www.pronutrition.org/files/Anthropometric.pdf)

UNICEF

Country Office: [www.unicef.org/infobycountry/](http://www.unicef.org/infobycountry/)  
 Supplies: [www.unicef.org/supply/](http://www.unicef.org/supply/)

RIMS

<http://intranet/knowledge/rims/index.htm>  
 RIMS focal point (XXXinsert email address)

## Annex 7 Proposed Amendment to the Financing Agreement

The MOIA and MOF should review the proposed amendment to the Financing Agreement and send an official letter to IFAD to request IFAD to amend the Financing Agreement.

### Section C

Amend paragraph 1. As follows:

“The Lead Project Agency shall be the Borrower/Recipient’s Ministry of Industry and Agriculture (MOIA).”

### Section E

Amend paragraph 2. as follows:

“The following is designated as additional specific condition precedent to withdrawal under category V (loan guarantees) from the Loan: the Technical Committee of the Loan Guarantee Fund has been established; and the Operation Manual of the Loan Guarantee Fund has been approved by IFAD.”

### Schedule 1 – Project Description and Implementation Arrangements

#### I. Project Description

Amend paragraph 4.1.1 Value chain development as follows:

4.1.1 Value chain development. The project approach in a given value chain will be to identify demand first and then link it to herders’ cooperatives and producer groups, selling quality output on the basis of a medium-long term commercial agreement. Main activities will include the following: selection of value chains and/or commodities which can be produced profitably and in a sustainable manner, identification of private and/or public enterprise, herders’ cooperatives and producer groups for the development of the priority value chains, establishment with project support, of a draft business plan by the selected companies including an investment plan, consultation with potential producers on the basis of the draft business and investment plan, review of the proposed production, quality and marketing modalities as well as the premium pricing mechanism, finalisation of the business and investment plans. In order to enable poor herders to benefit from and participate in value chain, the project will support the establishment of voluntary micro-finance Self Help Groups (SHGs) and develop SHGs as a cooperative. Joint liability Self Help Groups, will be eligible for group loans for micro-enterprise development. Loans will be disbursed by selected Participating Financial Institutions (PFIs) from resources made available to them by government funds and/or other donors-funded projects. The component will where relevant support the implementation of the Mongolian Government’s “Mongol Livestock” and “Cooperative Development” programmes and its measures, undertaken to develop agricultural commodity exchange in context of their general goals.

Amend the second sub-paragraph in paragraph 4.1.2 Small enterprise development as follows:

“4.1.2 The loan financing for the above activities will be provided by PFIs using resources made available to them by governmental funds and/or other donors-funded projects. The Project will establish a Loan Guarantee Fund. The eligible borrowers from the PFIs under the guarantee of the Loan Guarantee Fund will include both PMPMD target beneficiaries located in the Project Area and other eligible borrowers outside the Project Area. The Project will guarantee the loans from the PFIs at levels varying from 50% to 80% of their outstanding value. For this purpose, the Ministry of Finance (MOF) will establish a designated and transitional Unit in the MOF as part of the Project Management Unit to extend both individual and portfolio guarantees to PFIs. The operations of the transitional Unit in MOF will be overseen by a Technical Committee, which will be composed of representatives from ministries of Finance, Industry and Agriculture and Labor, as well as others as proposed by MOF and agreed by the Fund. The MOF will serve as the secretary for the Technical Committee. The PMPMD PMU Project Director will participate in the Technical Committee meetings as observer with no voting right. The Committee has the responsibilities for signing a guarantee contract with each participating commercial bank and approving new loans in their guaranteed portfolio in case of a portfolio guarantee, giving the final approval in case of individual guarantees based on recommendations from the Unit and managing the LGF resources, commitments, risk exposures and liability. Once a Loan Guarantee Fund operated by a private or public entity duly licensed by the Financial Regulatory Commission of the Borrower is operational, the guarantees previously extended by the Unit, its functions and staff will be transferred to the new Loan Guarantee Fund operator. The Unit of the MOF will no longer extend any more guarantee and the Technical Committee will be dissolved. A Loan Guarantee Operational Manual will be prepared by the Project and approved by the Fund prior to any disbursement under this component. Changes in the Loan Guarantee Operational Manual will only be made with IFAD’s prior approval.”

Add the following sub-paragraphs at the end of paragraph 4.1.2 Small enterprise development:

“4.1.3 The designated Unit in MOF will also extend individual and portfolio guarantees to PFIs when they extend loans to similar type of beneficiaries outside the project-selected soums and aimags. Resources allocated to the issuance of such guarantees covering part of the risk associated to loans extended by PFIs to non-project beneficiaries will not exceed USD 1.9 million while resources allocated to the issuance of guarantees to cover part of the risk associated with loans extended to project beneficiaries will amount to USD 1.0 million.”

“4.1.4 Part of the resources allocated by the Project for guarantee purposes may have a dual role, i.e. refinancing and guarantee. When resources from the government funds and/or other donors-funded projects are not sufficient to cover both the annual demands for loans from individual women or groups of women members of Project-supported self-help groups and the demands for loans from its specific target population, the Project’s resources will be used by the MOF to extend credit lines to PFIs to finance the demand for loans emanating from members of Project-supported self-help groups under the same terms and conditions as those used by PFIs when using the resources from the government funds and/or other donors-funded projects to finance eligible beneficiaries. The Loan repayments from the Project-provided credit lines to each of the PFIs will constitute a revolving fund with each PFI. A Subsidiary Loan Agreement will be signed between each PFI and the MOF, while a Memorandum of Understanding will be signed between the MOF, MOIA and each PFI detailing the modus operandi of the credit lines. When PFIs will use the proceeds of the Project-provided credit lines to finance loan provided to the members of Project-supported self-help groups, they will bear a percentage of the final loss equivalent to their share of risk/loss borne under the guarantee coverage offered by the Project Loan Guarantee Fund for similar investments.”

## II. Implementation Arrangements

Amend paragraph 5 as follows:

5. “Lead Project Agency. The Ministry of Industry and Agriculture and Light Industries (MOIA) shall be the Lead Project Agency and shall have overall responsibility for Project implementation.”

Replace MOFALI with MOIA throughout the Financing Agreement.

Amend paragraph 10. Implementation Strategy as follows:

“Implementation strategy. ... The implementation of the guarantees and the microfinance sub-component will be entrusted to a designated and transitional Unit in the MOF as part of the Project Management Unit until a Loan Guarantee Fund operated by a private or public entity duly licensed by the Financial Regulatory Commission of the Borrower is operational, when the guarantees previously extended by the Unit, its functions and staff will be transferred to the new Loan Guarantee Fund operator.”

## Schedule 2

Replace the table of Allocation of Loan and GEF Grant Proceeds in paragraph 1 with the following:

PART A			
Category	Loan Amount Allocated (expressed in SDR) - Original	Proposed Loan Amount Allocated (expressed in SDR) - rounded	% of Eligible Expenditures to be Financed
I. Civil Works	320 000	332 000	100% net of taxes
II. Vehicles, equipment	170 000	630 000	100% net of taxes
III. Inputs			
a. Tools, materials	1 030 000	1 030 000	100% net of taxes
b. Economic Development Costs	1 200 000	1 200 000	100% net of taxes
IV. Goup formation & Project Grants	780 000	630 000	100% net of taxes
V. Financing instruments*	1 930 000		
a. Loan guarantees for beneficiaries in the Project Target Area		660 000	100% net of taxes
b. Loan guarantees for beneficiaries outside the Project Target Area		1 250 000	100% net of taxes
c. Credit line		330 000	100% net of taxes

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VI. Field & Managemetn staff, operating costs and maintenance	1 100 000	900 000	100% net of taxes
Unallocated	720 000	288 000	
Total	7 250 000	7 250 000	
* the original description for the category V was "Loan guaranties".			

PART B		
Category	GEF Grant Amount Allocated (expressed in USD)	% of Eligible Expenditures to be Financed
II. Vehicles, equipment	60 000	100% net of taxes
III. Inputs		
a. Tools, materials	340 000	100% net of taxes
b. Economic Development Costs	930 000	100% net of taxes
VI. Field & Managemetn staff, operating costs and maintenance	22 000	100% net of taxes
Unallocated	148 000	
Total	1 500 000	