

Mongolia

Project for Market and Pasture Management Development

Supervision Report

Main report and appendices

Mission Dates: 9-20 October 2017

Document Date: 02/02/2018

Project No. 1100001455

Report No. 4691-MN

Asia and the Pacific Division
Programme Management Department

Abbreviations and Acronyms

ALAGAC	Administration of Land Affairs, Geodesy and Cartography
CCA	Climate Change Adaptation
GEF	Global Environment Facility
FSCU	Federation of Saving and Credit Union
LGF	Loan Guarantee Fund
MOF	Ministry of Finance
MOFALI	Ministry of Food, Agriculture and Light Industry
PHG	Pasture Herder Group
PMPMD	Project for Market and Pasture Management and Development
PMPMD AF	Additional Financing to Project for Market and Pasture Management and Development
PMU	Project Management Unit
PSC	Project Steering Committee
SCGF	State Credit Guarantee Fund
SDC	Swiss Agency for Development and Cooperation
SMEs	Small and Medium-size Enterprises
SOEs	Statements of Expenditure
WGs	Women's Groups

A. Project Overview

Region: Asia and the Pacific Division Project at Risk Status: Not at risk
 Country: Mongolia Environmental and Social Category: B
 Project Name: Project for Market and Pasture Management Development Climate Risk Classification: not available yet
 Project Id: 1100001455 Executing Institution: not available yet
 Project Type: Livestock Implementing Institutions: not available yet
 CPM: Matteo Marchisio
 Project Director: Mr Choi-Ish
 Project Area: Arhangay, Uvulhangay, Dundgovi, Hentii, Sukhbat, Dornod

Approval Date	11/05/2011	Last audit receipt	29/06/2017
Signing Date	17/06/2011	Date of Last SIS Mission	20/10/2017
Entry into Force Date	26/08/2011	Number of SIS Missions	5
Available for Disbursement Date	26/08/2011	Number of extensions	1
First Disbursement Date	21/12/2011	Extension 1	30/09/2021
MTR Date	15/06/2014	Effectiveness lag	3 months
Completion Date	30/09/2021		
Original Completion Date	30/09/2019		
Financial Closure	31/03/2022		

Project total financing

IFAD Financing breakdown	IFAD	\$9,060,000
	IFAD	\$11,479,497
Domestic Financing breakdown	National Government (add)	\$1,872,000
	National Government	\$898,198
	Domestic Financing Institutions	\$2,655,959
	Domestic Financing Institutions additional	\$473,000
	Beneficiaries	\$1,830,324
Co-financing breakdown,	Global Environmental Facility	\$1,500,716
Project total financing		\$29,769,694

Current Mission

Mission Dates: 9-20 October 2017

Days in the field:

Mission composition: Sunae Kim (IFAD Mission Leader), Thierry Mahieux (Co-Leader, Rural Financing Specialist), Sabine Schmidt (Pasture Management Specialist), Erdenechuluun Tumor (Livestock Value Chain Specialist), Irene Li (IFAD Senior Finance Officer), Xuelei Ji (IFAD Finance Officer)

Field sites visited:

B. Overall Assessment

Key SIS Indicator #1	Ø	Rating	Key SIS Indicator #2	Ø	Rating
Likelihood of Achieving the Development Objective		5	Assessment of the Overall Implementation Performance		5

Effectiveness and Developmental Focus		5	Project Management		4
Effectiveness		5	Quality of Project Management		4
Targeting and Outreach		4	Knowledge Management		4
Gender equality & women's participation		4	Value for Money		4
Agricultural Productivity			Coherence between AWPB and Implementation		5
Nutrition			Performance of M&E System		4
Adaptation to Climate Change		6	Requirements of Social, Environmental and Climate Assessment Procedures (SECAP)		5

Sustainability and Scaling-up		5	Financial Management and Execution		5
Institutions and Policy Engagement		5	Acceptable Disbursement Rate		5
Partnership-building		3	Quality of Financial Management		4
Human and Social Capital and Empowerment		5	Quality and Timeliness of Audit		4
Quality of Beneficiary Participation		5	Counterparts Funds		5
Responsiveness of Service Providers		4	Compliance with Loan Covenants		4
Environment and Natural Resource Management		5	Procurement		5
Exit Strategy		4			
Potential for Scaling-up		4			

C. Mission Objectives and Key Conclusions

Background and Main Objective of the Mission

An IFAD loan on highly concessional terms of SRD 7.25 million (equivalent to USD 11.5 million) for the Project for Market and Pasture Management Development (PMPMD) was approved by the IFAD Executive Board in May 2011 and became effective on 26th August 2011. The goal of PMPMD 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 Sourn and Aimag centre households in the project area, which is in line with the Mongolian Government's "Mongol Livestock" and "Cooperative Development" programmes. The project target area covers five Aimags: Huvsgul, Arkhangay, Bulgan, Khentii and Gobi-Altai. PMPMD consists of three components: (i) Market Development (value chain development, small enterprise development, loan guarantee scheme); (ii) Pasture Management and Climate Change Adaptation (formation of pasture herder groups, pasture management plans, climate change adaptation); and (iii) Project Management and Policy Support.

The original Project Completion Date was 30th September 2016 and the Loan Closing Date was 31st March 2017. The total project costs amount to USD 18.4 million, including an IFAD loan of USD 11.5 million; a GEF/SCCF grant of USD 1.5 million; government's contribution of USD 0.9 million; beneficiaries' contribution USD 0.2 million; and private sector contribution of USD 4.3 million.

Following the request of the Government of Mongolia in February 2016 for an additional financing to the Project for Market and Pasture Management Development (PMPMD), the IFAD Executive Board (EB) approved the additional financing (AF) of SDR 6.48 million (approximately US\$ 9.06 million) on blend terms as well as a five-year extension of the PMPMD until the 30 September 2021 from the 30 September 2016. Under the same goal and development objectives, PMPMD AF invests in 18 additional target soums in 6 aimags of Arhangai, Dornod, Dzungobi, Hentii, Sukhbatar and Uverhangai.

IFAD fielded a supervision mission in Ulaanbaatar, Mongolia from 9-20 October 2017 to review the investment activities of PMPMD from October 2016 to September 2017 and to support the Ministry of Food, Agriculture and Light Industry (MoFALI) and Ministry of Finance (MoF) to launch the implementation of PMPMD AF. IFAD planned to organize the AF start-up workshop and visit project soums during the mission, but given the delays in soum selection and PMU staff renewal/appointment, GoM and IFAD decided to postpone the start-up workshop until the project soums are selected by Project Steering Committee (PSC). PSC was re-established on 10 October 2017 - during the mission. Instead the IFAD mission met with potential implementation partner agencies and updated the detailed project description of PMPMD AF as a proposal to GoM.

The mission met with State Secretary of MoFALI, Director General of MOF Development Financing Department, Head of MOFALI International Cooperation Division, Project Director, LGF manager, Financial Regulatory Commission, Mongolian Banking Association, Federation of Savings and Credit Union, National Agricultural Extension Centre, business associations (for meat, dairies, vegetable, fruits and berries, leather, and wool and cashmere), SDC, WB, ADB and Korean Embassy. The mission also held meetings with PMU to review of the progress of PMPMD.

Key Mission Agreements and Conclusions

1. The selection of project soums is an absolute priority, and no further delay is affordable for the successful project implementation. Soum Selection would be finalized as soon as possible through the next PSC meeting, subject to IFAD's no objection.
1. The remaining balance of the GEF grant for PMPMD will be used to strengthen sustainability of Pasture Herder Groups in the PMPMD target areas. For this, PMU Pasture Management Coordinator and LGF Manager would contact and seek collaboration with Federation of Savings and Credit Union (FSCU) to support PHG members to become a member of Savings and Credit Union (SCU) and manage revolving funds through SCU.
1. The remaining balance of the IFAD loan for PMPMD will be used to cover PMU staff costs until the end of December 2017 and to support the implementation of PMPMD AF. With this, the budget for PMPMD AF increases by approximately 5-6%. The mission updated the design report to accommodate this increased budget under PMPMD AF. The revisions would be discussed and finalized between GoM and IFAD before PMU starts to prepare the AWPB 2017-2018.
1. The contract of current PMU staff will be extended until the end of December 2017. If MOFALI wishes to renew the current contract of PMU staff (on an individual basis), it must be done before his/her contract ends in December 2017, subject to IFAD's no objection.
1. Until the end of December 2017, PMU staff will focus on delivering the following: i) finalize the activities and investment already committed under AWPB 2016-2017; ii) organize a start-up workshop inviting aimag, soum officials and staff, and other projects on the agriculture and livestock sector; iii) conduct soum-level baseline surveys for PMPMD AF (baseline survey for beneficiaries will be completed when the groups are formed); iv) upgrade accounting software and improve M&E system; v) prepare the launch of bidding processes to select service providers for PMPMD AF; vi) prepare AWPB 2017-2018 and procurement plan; vii) launch a

project Website for both PMPMD and PMPMD AF; and viii) prepare the first draft of Project Implementation Manual when the PMPMD AF project revision is agreed between GoM and IFAD.

1. The completion report of PMPMD would apply the logframe attached to this aide memoire. This logframe is based on the one revised during the MTR report of 2014 and the draft logframe proposed by PMU in 2015. It is further modified in order to reduce the number of indicators at around 20 as per IFAD's recent guidelines on logframe. It also establishes targets, when they were not clearly provided at the design, at the similar level as PMPMD AF.

D. Overview and Project Progress

As of October 2017, the physical targets under the Pasture Management and Climate Change Adaptation component were 100% achieved (measured against mid-term targets), and the Market Development component also achieved several activities exceeding 100%.

The balance of funds available (after commitments) amounts to SDR 307,319 (approx. US\$ 473,000) from the IFAD loan (4% of the loan) and US\$ 45,000 from the GEF grant (3% of the grant). When it is combined with with the additional financing of SDR 6.48 million, the remaining balance is SDR 6.78 million from the IFAD loan (approx. US\$ 9.5 million) and US\$ 45,000 from the GEF grant.

The Logframe for PMPMD AF is updated during this mission using new IFAD Core Indicators which were introduced after the EB approval of PMPMD AF. This is a timely change before the start-up workshop is organized. The baseline survey of PMPMD AF will be conducted on the basis of this updated logframe.

The progress of actions agreed in last mission in April 2017 is as following:

- Amended Financing Agreement ratified in June 2017
- Project Director and LGF Manager appointed
- LGF staff contract renewed
- Contracts for revolving funds for PHGs and WGs concluded
- Project Steering Committee re-established on 10 October 2017
- Soum selection and start-up workshop - not yet done as of 30 September 2017

E. Project implementation

a. Development Effectiveness

Effectiveness and Developmental Focus	
Effectiveness	Rating: 5

Justification of rating

The rating considered three aspects: (i) achievement of AWPB 2016-2017; (ii) accumulative achievement of PMPMD against outcome and output targets in the logframe; and (iii) PMPMD AF readiness such as target area selection, start-up, PMU, selection of service providers and staff training as an indication of whether PMPMD AF could achieve its targets in 4 years. AWPB 2016-2017 outputs were achieved almost 100% (subject to the completion of greenhouse construction in time). Outcome achievement is not fully recorded (to be done through finalization of the completion report for PMPMD). The readiness for PMPMD AF exposes project at medium level of risk. The readiness could be improved quickly when the Project Steering Committee, which was re-established during this mission, organizes its first meeting quickly and makes decisions on target soum selection and PMU staffing.

Log-Frame Analysis & Main Issues of Effectiveness

The project is on-track to achieve the outcomes and the project's objective. Under the Pasture Management and Climate Change Adaptation component, the investments and capacity building activities contributed to the enhancement of livestock production, and thus, increasing household income and generated positive livelihood outcomes for the target communities as detailed in the completion report 2017. Climate adaptation capacity is significantly enhanced through new wells drilled, hay shed and fodder storage facilities constructed, water collection points constructed, spring sources installed, automated weather stations installed in project soums, and small-scale tractors provided to all herder groups. A various range of capacity building trainings was provided on the following topics: (i) cooperative management, (ii) climate change adaptation, (iii) vocational training, (iv) Index Based Livestock Insurance, (v) fodder cultivation technology, (vi) veterinary and breeding education, and (vii) pasture management.

The Market Development component focused on the following three aspects: (i) value chain development by PMU; (ii) small and micro-enterprises development implemented through the Union of Mongolian Products and Services Cooperatives (UMPSC), and (iii) loan guarantee and credit lines implemented through the PMPMD Loan Guarantee facility (LGF). On the value chain and SME development and their sub-component implementation, UMPSC has exceeded its target in term of women's group formation and financing, and 55 SMEs/cooperatives were supported by the project through financial literacy, various trainings on marketing, technical skills, business management, pricing, compliance with HACCP and assistance to develop a business plan (122% of the mid-term target). National and international exhibitions were attended by SMEs/cooperatives representatives as well as members of women's groups. In total, 45 business plans were submitted to 5 participating commercial banks of which 26 were financed. Total loans extended with project resources amount to MNT 1.48 billion (in addition of a 10% financing from banks) and the repayment rate stands at 100%. Reportedly, the financing of these 26 SMEs/cooperatives have enabled the creation of 150 jobs and the inclusion of additional 1,500 farmers, herders and producers in the SMEs/cooperatives' supply chain. Up to 50% profit increase in average Substantial in both SMEs/cooperatives turnover and profit have been reported.

During the project design, MoFALI Technical Working Group decided to focus the project support on three value chains of dairy, berries and vegetable. Support provided by the project has been two-fold: (a) capacity building of poor households to ensure their inclusion in the above mentioned supply chains, and (b) knowledge and experience sharing through national organizations representing producers in selected VCs to maximize impact across the country – for example, i) revision of standards for production of seabuckthorn juice and its training to VC stakeholders as well as a release of an "Encyclopaedia of Berries in Mongolia" aggregating all VC stakeholders and best technical practices; ii) dairy products processing and regulation on milk and dairy products, and iii) publications on plant protection, cabbage production and post harvesting and onion and garlic production.

However, the mission notes that there were several conceptual and operational constraints which had negatively impacted the performance of LGF. Also, the integration of WGs and PHGs in selected VCs or linkages with SMEs and cooperatives has not been fully pursued thus minimizing the overall impact of the project despite punctual commendable achievements and substantial impact on income generation.

Development Focus		
Targeting and Outreach	Rating: 4	Previous rating: 5

Justification of rating

The mission finds that the targeting approach stated in the original PDR (for PMPMD) should have been revised earlier in the report – even though this issue has been addressed through supervisions and AWPB preparation. For example, targeting WGs with at least 75% poor hh or SMEs owned by poor and non-poor jointly would not have been realistic because the average poverty rate is around 30% in target areas. Still, the project avoided the issue of elite capture in selecting members for PHGs to the extent possible through the implementation of investment guidelines and revolving fund guidelines. WGs' membership is cross-checked with the list of poor households at soum level ensuring that poor and very poor households are effectively included in project activities.

Main issues

An inclusive approach of PMPMD aimed to have at least 50% of value chain development beneficiaries are from the target group. The project target groups included SMEs owned by poor and non-poor jointly; WGs with at least 75% poor households and 75% women; PHG members all reside in the pasture unit but ensuring the poor is effectively participating. The mission acknowledges that the above issue of targeting strategy has been addressed and reflected in the design of PMPMD AF. PMPMD AF also emphasizes the potential backward linkage of SMEs to the poor rather than actual ownership by the poor.

Gender equality & women's participation	Rating: 4	Previous rating: 5
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Justification of rating

The mission acknowledges that given the traditional division of work in herder families, it is more difficult for women to take up the role of PHG leader which requires to visit each HH in spring and winter. Still, field visits also find the active and successful work of PHG lead by female leader. The importance of Women's Groups (WGs) in the development of soums has been acknowledged by local authorities, resulting in their strong financial commitment to co-finance workplaces for WGs. Also, according to project beneficiary women, their status in their communities has greatly improved. Each WG receives demand from other women in their communities to join and participate in WGs' activities, indicating the good perception of WGs' and project's activities outside the target group.

Main issues

Under the market development component, 455 women's groups (WGs) - i.e. 2,689 women (975 men)- have been supported through the project. Around 85% of WGs are headed by women. 395 WGs, representing around 2,330 women have accessed to loan funds to finance their activities. Loans extended amount to MNT 3.46 billion and repayment rate is 98.5%. Women represented 86% of trainees. WGs' members have also learnt to become team members, work together, assist and support each other. Women through their WGs have been able to save up to MNT 180 million to be used for either financing additional investment, emergency or consumption needs.

While the project demonstrates a strong gender focus through the market development component, women's leadership and participation in PHGs and PHG decision making bodies under the pasture management and climate change component could be enhanced. Through the division of labor among households in different herding tasks and vegetable growing, women benefit from more opportunities to undertake income generating activities. There is still an unmet demand from women, whose household is a PHG's member, to create their own women's groups or to be included in the micro-enterprises development sub-component. To date, 36% of PHGs members are female and 30 % of PHG Revolving Fund loan committee members are female. Women in PHG decision making bodies (group leadership and loan committee represents 16 % (target 20%). Of the 120 PHGs, 26 have female leaders (target of 36). As PHGs are anticipated to be more capacitated in financial management (Revolving Fund management through becoming a member of Savings and Credit Union), women's role would play more important roles under PMPMD AF.

Agricultural Productivity	Rating:	Previous rating: 5
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Nutrition	Rating:	
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Adaptation to Climate Change	Rating: 6	Previous rating: 5
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Justification of rating

The resilience of local communities to climate related shocks and stresses has been strengthened greatly. The use of hay-making tools has increased from 2% to 78%, hay and fodder storage capacity is nearly doubled, areas protected for seasonal hay production have increased by more than 30 times, and the use of unregulated hay production was reduced by half. When the dzud hit some of project areas in the winter of 2016, the project-invested facilities saved hundreds of livestock and livelihoods of those who are depending on livestock. The local authorities appreciated the project's investment. Aside from the physical benefits, herders and local administrators are now calculating the costs and benefits of pasture improvement thanks to project demonstrations.

Main issues

The project effectively implemented a series of well-designed adaptation measures such as: a) construction and renovation of hay sheds and fodder storage facilities, and reserve pastures; b) provision of small-scale tractors for hay making to herder groups; c) guarding hay reserves in collaboration with soum administration; d) tested fields and demonstrated green fodder production; and e) demonstration of the natural restoration of hay making pasture.

- **Hay sheds and fodder storage:** Hay and fodder storage facilities increased from 5 to 16, including project soums and in inter-aimag otor areas, giving 15,000 herder households the opportunity to access good quality hay and fodder at a low cost. In total, storage capacity reaches for 1,825 tons of hay and 5,960 tons of fodder.
- **Provision of hay-making tractor:** 120 small-sized tractors with haymaking equipment provided to the 120 project-supported PHGs (with 20% subsidies and 80% as revolving fund). After project, hay preparation is nearly doubled from 1.7 tons of hay on average to 3.2 tons. Also the amount of hay purchased by HHs increased by 12% after the project, rising from 228 kg to 256 kg, and the money spent on hay increased from 126,000 MNT to 308,000 MNT. A dramatic increase in the use of hay preparation tools shows an improvement in hay making capability and quality of life. After the project, the use of hand-held tools is reduced from 93% (before the project) to 10% (in 2016) but the use of their own tractors and tools has increased from 2% to 78%. Moreover the average number of days to harvest hay has reduced from 8 to 5 after the project's support.
- **Hay reserve:** The practice of guarding larger grazing reserves guarded by appointed herders was introduced successfully in project soums, and is a far more cost-effective method of seasonal protection of pasture lands than fencing (from 2013-2014, 240

hectares of hay fields were fenced). Consequently, some soums are now producing 100% of their hay needs. In total, 78,000 hectares were guarded by soum governors' orders and 11,739.8 tons of hay were harvested in 2015-2016. According to a project survey, 11% of respondents reported that they harvested hay from protected areas for hay making in 2016 while only 4% said they did before the project. In contrast, the number of households that prepared hay from unregulated areas fell from 68.3% to 30%. The size of fields for prepared hay expanded from 3 hectares to 14 hectares, growing 4.5 times larger, for each household compared to before the project. These positive changes show the benefits of intervention by protecting grazing fields.

- **Demonstration of green fodder cultivation** was conducted in five select soums. Before the project, it was estimated that 15 kg of fodder/HH was planted each year, while 360 kg was purchased, including green fodder, oats, and bran. In 2016, as estimated by the herders themselves, the amount of green fodder grown was 64 kg and 542 kg was purchased.
- **Group organization and collective action, trainings and investments** have empowered project beneficiaries and local communities to better mitigate, prevent, or prepare for climate related problems, and increased their resilience to climate related shocks. Also technical assistance to develop legislation on Reserve Pasture Areas (RPAs) supports helped coordinate the use of RPAs effectively for herders impacted by extreme events.

b. Project Management

Quality of Project Management	Rating: 4
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Justification of rating

The cumulative physical targets of PMPMD in most activities have been met 100% or more despite seasonal barriers (long winter period), long processing time for procurement, and late start-up. Yet, lower disbursement during 2016-2017 is a missed opportunity to even increase the target with the remaining balance at that time. To further improve project management under PMPMD AF, the mission recommends the capacity building of PMU through organizing quality start-up workshop at the beginning of PMPMD AF, improving logframe and M&E methodologies in a participatory manner, updating the accounting system to better track and report on the remaining balance (to readjust AWPB commitment quickly).

Main issues

The exchange rate of Mongolian Tugrik (MNT) to USD has plummeted by almost half compared to the beginning of the project and its end. This depreciation, which was far beyond the price contingency set by the project design, could have been better addressed by increasing targets and/or introducing additional activities by increasing the number of PMU staff or contracting additional service providers. Staff cost increase as well as recruitment of staff or service providers takes a long process in Mongolia, and there would have been a lot of delays. In anticipation of such issues, PMPMD AF could pay more attention to the impact of an exchange rate and takes an early action (i.e. increasing target beneficiaries, increasing target areas or including additional activities) through missions and AWPB preparations. The mission's rating also reflects the impact of delays in MOFALI's decision on PMU staffing and re-establishment of the Project Steering Committee which resulted in delays in project soum selection and launch of PMPMD AF.

Knowledge Management	Rating: 4	Previous rating: 5
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Justification of rating

The project generated and disseminated multidisciplinary knowledge in project areas and beyond covering 8 different types. The was conducted and facilitated by the professional associations and other well-known organizations in the country. Training materials are produced in video and written materials, and disseminated to the government officials and beneficiaries. Yet, the project lacks an elaborated KM strategy or coherent plan and the dissemination of such knowledge products could be scaled up to partner agencies and other projects. For the PMPMD AF, preparation of KM strategy and plan could enhance more systematic review of the project's knowledge products, lessons learned, and assignment of roles and responsibilities.

Value for Money	Rating: 4
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Justification of rating

One of key challenges the project faced was the fluctuation of currency (almost 80% depreciation compared to the beginning of the project). After delivering output as planned in the AWPB, the disbursement rate remained low due to this chronic issue. Proposed additional activities tend to focus on infrastructure and equipment, which resulted in the amendment of budget category allocation. Rather than increasing the number of output or allowing ad-hoc based additional activities extensively, GoM and IFAD agreed to set aside USD 600,000 to support PMPMD AF activities reaching out increased number of beneficiaries.

Main issues

Value for Money Review

As per inputs to outputs, the cost for civil works has increased from SDR 330,000 to SDR 1,010,000; vehicles and equipment increased from SDR 620,000 to 880,000; and credit line has increased from SDR 750,000 to 1,700,000 while the cost for loan guarantee, group formation support, tools, training are maintained or reduced. This revised budget has no influence on meeting the target output, and the budget revision was done only when the output achievement was assessed and positively evaluated.

Because the VC support was provided to berries, dairies and vegetable as the government requested the project to focus on the

forementioned three VCs, the EFA analysis on berry plantation, not the sheep skin improvement, is the only analysis still relevant to the project performance review. After experiencing delays in the group formation, the project completed the formation of groups, completion of loan applications, financial management training, and only their first harvest and sales were completed by the end of the project. Greenhouse construction was on-going during the supervision. Thus, the profitability and IRR analysis will be done as part of the completion report. Instead, the Supervision mission focused on evaluating the project logic and viability of project interventions. The project's capacity building and input/materials were completed within the budgeted amount.

The rating for value for money considered the following three aspects: First, the delay of the project activities resulted in only one or less than a year of project implementation period to apply techniques and trainings provided by the project. This delay caused the evaluation of a project model difficult and premature. Second, the project planning and budget has been done effectively to adapt to the slow progress and adjust/reallocate budget the best way possible. Third, the high repayment rate of the loans used for purchasing tools and equipment for businesses proves that at least at the time of supervision, the viability of project-supported business seems promising. The mission recommends to run the EFA analysis more rigorously (in terms of timing and inclusion of economist in the mission team) for the PMPMD AF implementation.

Coherence between AWPB and Implementation	Rating: 5	Previous rating: 4
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Justification of rating

Overall the AWPBs have been implemented as planned and reached a close to 100% physical delivery. The remaining activities such as the delivery of mobile fences for livestock treatment, the supply of cooling facilities for veterinary vehicles/motorbikes and the extension of loans are under way. Cancelled activities are: a planned in-country study tour which could not be undertaken due to restrictions of public gatherings/travel during presidential elections, and Soum strategy development in selected Soums as it fell into winter time and planning periods were very short to implement this effectively

AWPB Inputs and Outputs Review and Implementation Progress

Between October 2016 - September 2017 there were two AWPBs developed: one from October 2016 – March 2017 (called AWPB 2016) and the other from April – September 2017 (called AWPB 2017). The first AWPB 2016 was needed because GoM and IFAD tried to disburse all the remaining balance of PMPMD until March 2017 in expectation of PMPMD AF. However, the ratification of PMPMD AF was done only in June 2017, and there were still remaining balance of PMPMD in April 2017. Thus, the second AWPB for PMPMD from April – September was prepared for the remaining balance of PMPMD.

Pasture Management and Climate Change Adaptation Component – In addition to the original AWPB, additional activities that had been agreed in April 2017 included: i) Support Reserve Pasture Areas (repair of 4 vans, repair of damaged roof of the storage facility, construction of block wall for hay storage ii) Allocation for emergency vet services (vaccination), iii) Equipment for meteorological officer (Battsengel soum), iv) Adaptation of power supply of well (Tsagaan-Uul soum) v) In-country study tour vi) Training on dairy and dairy farming semi-intensive livestock, vii) Mobile fence for service of AB & Vet, and iix) Small hay making balers or hay-making equipment. Capacity building activities also proceeded as planned including pasture management training for local staff of Reserve Pasture Areas in Jan 2017, advanced Cooperative Training for Soum level officers and representatives of Cooperatives in Mar 2017, Livestock Breed Improvement training for Soum level officers and herders with large herds in Mar 2017, veterinary/infectious disease training for local staff of Reserve Pasture Areas in April 2017, Dairy Products Food Safety and Value Addition for Dairy producers from Khuvsgul, Arkhangai, Khentii and Bulgan provinces in May 2017, pasture mapping including pasture condition, stocking rate and water sources in Battsengel Soum for Soum and Bagh Governors, members of soum parliament and representatives of herder in May 2017. Technical Assistance was provided to draft a Law on Inter-Aimag Reserve Pasture Areas; the draft is designed to enable coordinated use and protection of inter-aimag reserved pasture areas (RPAs) and is ready for submission to the national parliament. Remaining activities of delivering mobile fences for livestock treatment and of supplying cooling facilities for veterinary vehicles/motorbikes are under way, or on hold respectively (as of early October 2017), awaiting decision by MoFALI on Soums to which to distribute the support. In one project Soum, pasture land use mapping was undertaken with ALAGAC input, providing an improved base for planning natural resource management and market development.

Market development Component - With the exception of the extension of loans, other activities planned during the period under review have been completed and an 89% financial disbursement rate. As for the budget lines related to the extension of loans, the physical delivery rate is 60% (4 loans extended by commercial banks with project resources out of 6 planned) and financial disbursement rate stands at 57% (balance of resources available amounts to US\$ 131,735). In addition, loans resources committed for extension of loans to SMEs as at end-March 2017 have been effectively used at 79% with a remaining balance of US\$ 24,862. The project also undertook 2 value chains studies (dairy and livestock raw material preparation), the procurement of dairy equipment for 3 SMEs/cooperatives and for MoFALI DPPIFI, the procurement of 12 greenhouses distributed to 12 WGs, as well as training on vegetable plantation (40 farmers), on berry plantation (50 farmers) and on cattle feeding methods to improve milk quality (40 farmers).

Performance of M&E System	Rating: 4	Previous rating: 5
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Justification of rating

Over the 5 years of project implementation, the logframe was revised more than three times, and RIMS and M&E forms were updated as well. To address the issue of monitoring newly added or revised activities, the project M&E has developed its own set of indicators to measure impact and performance. This updated PMPMD M&E system is considered to be complete but retrofitting past information to

the newly updated M&E indicators still remains as a challenge. PMPMD AF will dedicate a session on M&E planning during the start-up to finalize the logframe in a participatory manner and agree on practical and effective indicators.

M&E System Review

The PMU has ensured the timely execution of a comprehensive RIMS baseline survey (2012) and shared its findings with Government and other partners at a workshop. In 2014 and 2015, the PMU with the assistance of IFAD has also conducted an Annual Outcome Survey and in 2016 a RIMS survey was conducted. Surveys results have been disseminated to all PMPMD partners. The PMPMD Steering Committee receives regular progress updates that enable it to make informed decisions about project direction when it meets. Meetings for the MoF Technical Working Group for LGF and for the MoFALI Technical Working Groups for Pasture Management and for Value Chains have been convened and have provided appropriate guidance to PMU and LGF staff, as well as directions to the development of the AWP&Bs.

During the first semester of 2017, an Outcome Survey for Cost-Benefit Analysis was conducted by the National Statistic Department including 9 project-supported SMEs and members of 155 WGs. The main findings of the survey are: (a) for WGs: cash income of project-supported WGs' members substantially higher than national average income for non-project beneficiaries mainly as a result of the activity undertaken within the WG (access to loan has enabled most women to expand their businesses); (b) project-supported SMEs turnover has in average doubled after project support but their profitability hasn't show any improvement yet mainly because of loan interest payments (profitability will increase when loan will be fully repaid enabling SMEs to gradually self-finance their investment); (c) project-supported SMEs have been able to create around 150 jobs while the number of people employed by WGs' members has risen in average from 1 to 4; (d) project-supported WGs have expanded their production and are now able to commercialize in average 4 more products, and (e) quality wise, the improvement of products from WGs has been increasing enabling them to commercialize through more channels (answering local public sector bidding, selling to wholesales with distribution in UB, selling to processing companies).

No training was provided to PMU staff on M&E apart from assistance provided by a consultant for the 2014 Outcome Annual Survey and for the 2016 RIMS survey. Training should be provided to PMU staff as well as to service providers to ensure reliability of information and data collected. Finally, there is a need to review the complete current PMU M&E system to ensure its reliability, its comprehensiveness, and its automaticity through all the tables.

Requirements of Social, Environmental and Climate Assessment Procedures (SECAP)

Rating: 5

Justification of rating

SECAP was prepared during the PMPMD AF design and approved by the EB in Sep 2016. GoM is in preparation of PMPMD AF implementation by switching from PMPMD to PMPMD AF starting from Jan 2018. As the PMPMD AF project aims to enhance sustainable management of pasture and climate resilience to reduce poverty, the project design relied on SECAP to identify measures to enhance social, environmental and climate opportunities for local communities. Soum facilitators and Aimag assistant will be responsible for monitoring and reporting on implementation of SECAP.

SECAP Review

SECAP implementation is closely linked to the revised PMPMD AF design on developing Soum Strategies for Pasture Management and Climate Change Adaptation based on assessment of natural resources and user rights. Under this component, SECAP related documents contribute to natural and land resource mapping, which is the approach of ALAGAC. The project also created an emergency response fund following the PMPMD approach and SECAP recommendations. There are no major foreseen environmental and climate risks.

c. Financial Management & Execution

Disbursement by financier

Type	Name	Current Amount	Disbursed Amount	Actual Rate
Domestic Financing breakdown	National Government (add)	\$1,872,000		
	National Government	\$898,198		
	Domestic Financing Institutions	\$2,655,959		
	Domestic Financing Institutions additional	\$473,000		
	Beneficiaries	\$1,830,324		
Co-financing breakdown,	Global Environmental Facility	\$1,500,716		

Acceptable Disbursement Rate

Rating: 5

Previous rating: 4

Justification of rating

This is the final rating applicable for the disbursement of PMPMD. From the next supervision mission, PMPMD AF disbursement will be reviewed. The PMPMD loan became effective on August, 2011. To date, the 6 year implementation period has elapsed. Overall the accumulative disbursements applied to eligible expenditures are in the amount of SDR 6.8 million (96% of the total loan allocation) for loan and USD 1.45 million for the GEF grant (97% of the total grant allocation).

Main issues

GoM and IFAD agree to use the remaining balance of IFAD loan amounting to USD 600,000 for PMPMD AF activities. Without amending the financing agreement, the remaining balance will be disbursed in the project areas of Arhangay and Hentii, which are continuously supported under PMPMD AF. It was also agreed that the remaining balance of GEF grant would be used to strengthen sustainability of PMPMD by engaging the Federal Credit and Saving Unions and guiding Pasture Herder Groups and Women's Groups to join the FCSU. This would be a preferred option because FCSU is a recognized group which could manage the group's own revolving fund while PHGs and WGs are not legally recognized groups.

The mission also reviewed SOE supporting documents on a random basis. The majority of project expenditures were below SOE thresholds. Spot checks were conducted on the financial management documents maintained by the project including WAs, statements of expenditure (SOEs), and other financial records. It was found that the majority of the expenditures incurred in line with the Financing Agreement and met IFAD regulations satisfactorily.

Fiduciary Aspects

Quality of Financial Management

Rating: 4

Justification of rating

Financial Statements are prepared in accordance with the National Accounting Standards and IPSAS on accrual basis, and financial records are backed up to a server for safe-guarding on a regular basis. The chart of accounts set up in the project accounting system contained a good set of information on project activities and components but not on expenditure categories. Reporting on category expenditures had to be generated manually. This resulted in shortcomings and set-backs in yearly financial budget preparation and subsequently significant overdraft on categories expenditures. The mission requests the project to prepare the AWPB by both project component and expenditure category. Significant variations need stronger and consistent follow up.

Main issues

The mission was pleased to note that the project has been using a country financial accounting computerized system, called "Aclous" for the project accounting and book keeping. Yet, to ensure the integrity and reliability of the accounting records in the most efficient and effective manner, the mission suggested that the accounting software be adapted to the structure of the IFAD financed projects (i) to include information on expenditure category and component; (ii) to adopt dual-language and dual currency (MNT and USD) reporting - The exchange rate to be used will be on First In First Out (FIFO) method, and expenditure transactions will be translated using the rate at which the related funds were transferred from the Designated Account to the Operations Accounts-; and (iii) to enable automatic generation of Withdrawal Application reports to include the SOE and Summary sheet. The novelty of this project from FM point of view would be the first ever adoption of automated financial reporting for the additional financing loan in the country. MOF has welcome to IFAD's request for adapting the structure of the accounting system in term of efficiency. The estimated budget needs to be included in AWPB and be cleared by IFAD.

Following the previous SIS recommendation, there mission noted that segregation of duties between the accountants and the cashier has been maintained and supporting documents have been well maintained.

Petty cash was managed properly and periodically reconciled by Project accountants and cashiers. Bank account reconciliations have been also carried out monthly. Contract Registers were maintained. Majority of the fixed assets are registered and labelled properly. Physical verification of assets has been conducted semi-annually.

The project has met the basic requirements for the management of IFAD funds but with some control points are weak. The one of the weakness is that internal audit arrangements do not operated for adequate scope and some aspects did not function effectively. Audit management letters indicate some material internal control weaknesses but follow up action has been taken.

Financial Management is mainstreamed through country system although segregated bank accounts are opened – there is no single Treasury system operating in the Mongolia.

Quality and Timeliness of Audit

Rating: 4

Previous rating: 5

Justification of rating

The General Audit Office conducted the audit by using ISA and Government Auditing Standards. The audit reports comply with agreed terms of reference IFAD guidelines and acceptable auditing standards. The 2016 audit report was submitted to IFAD on time (June 29 , 2017). Recommendations from auditors and IFAD audit review have been followed up and addressed. Audit performance has been also improved. Unlike 2015 when the auditors embedded the opinion on the SA and the SOE in the opinion of the Financial Statements, this year's unqualified opinions have been expressed explicitly on Financial statements, Designated account and SOE each. However, the project did not submit the unaudited financial statements for 2016.

Counterparts Funds	Rating: 5
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Justification of rating

Government counterpart funds are rated as satisfactory in terms of amount and timeliness of their release. The Government provide counterpart financing for the Project to cover duties and taxes of the Project. The Government contribution to PMPMD is limited to taxes and duties by means of full tax exemption from imported duties and taxes for all purchases under the project. As of 15 October, 2017, a total contribution of counterpart funds was amounting to approximately USD 610,000 (68% of the total planned Government contribution). Overall, the tax exemption has been followed well. The mission also noted the VAT exemption from project activities and procurement expenditures of the Project were made and recorded in the national accounting system.

Compliance with Loan Covenants	Rating: 4	Previous rating: 5
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Justification of rating

The financing covenants are generally complied with respect to those that have become due for compliance, except for (i) slow project implementation; (ii) budget overdraft; and (iii) non-compliance with Section 9.02 of GCs in respect of submission of detailed financial statements of the operations, resources and expenditures related to the Project for each fiscal year within four months.

Procurement

Procurement	Rating: 5
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Justification of rating

The mission took note that procurement activities of the project are conducted in line with the procedures stipulated in the Mongolian Procurement Law and IFAD. The mission noted that the common procurement process for construction works and pasture management component are followed through local competitive bidding, shopping, and community/PHGs contracting as described in the 2016-2017 Annual Procurement Plan approved by IFAD .

Procurement Review

Considering the limited time window available for the implementation of civil works due to the climatic conditions and considering the average time needed for each procurement (from preparation of tender documents to actual implementation of work), the annual PP should be finalized by end of December to leave sufficient time for implementation of works. In that respect the AWP&B should also be submitted to IFAD no later than October and receive no-objection by November. As this is the final year of the PMPMD, no major procurement transactions that required the supervision team's attention. PMU Procurement Officer attended IFAD training on procurement, organized by the sub-regional hub based in Beijing. For PMPMD AF, it is also recommended to expand the training of procurement to procurement committee of MOFALI in partnership with other international projects such as WB and ADB.

F. Relevance

Relevance

Rating: 5

Justification of rating

The project's implementation approach was first to go through service providers with minimum number of PMU staff. With the delays experienced in identifying and contracting service providers, PMU component coordinators' roles have become increasingly important and it proves to be effective to establish a good working relationship with aimag and soum government and to manage work of soum facilitators and service providers. The development objective is still relevant to PMPMD AF and thus the project will scale up the approach of PMPMD to additional project areas.

Main issues

Approximately 5% of PMPMD (estimated at USD 523,000) is not disbursed After meeting the physical targets of the project, approximately 5% of PMPMD (estimated at USD 523,000) is still available. To use these funds more effectively, to address the government's interest in raw material and niche product development based on the recently concluded value chain studies led by several international donors, and to better address lessons learned from PMPMD's targeting and sustainability, the detailed project description of PMPMD AF is better to be revised. The suggested modifications would include: a) logframe integrating IFAD's new core indicators, b) expanded beneficiaries to PHG-based cooperatives and existing MSEs in target areas, and c) re-focusing project's support on value chain - from the policy and strategic capacity building for the overall value chain to the niche market oriented products development. These adaptations would be very timely considering that the PMPMD AF implementation will begin after such adaptation is made. The supervision mission prepared the revised draft of detailed project descriptions, and the suggestions are annexed to this report. Discussion and agreement on the Detailed Design Report including costing would be finalized between GoM and IFAD before the preparation and approval of AWPB 2017-2018.

G. Project Modifications

Responsibility	Modification Type	Description
TBC	Other	The detailed description of PMPMD AF is revised after meeting with business associations in several business sectors (vegetable, fruits and berries, leather, cashmere, meat) and with other international agencies who newly launched value chain support projects. After identifying opportunities and existing efforts being done by other projects, the mission came up with a suggestion to fully focus PMPMD AF's value chain on niche market. This analysis was based on the request of MOFALI for IFAD to support a niche market development.
TBC	Logical Framework	It is best to revise the logframe to reduce down the number of indicators and to capture the outcomes of PMPMD AF which strengthens the value chain of niche market as requested by MOFALI. The purpose of the modification is to simplify the logframe, to enhance measurability of indicators and to harmonize the logframe of PMPMD and PMPMD AF.

Project for Market and Pasture Management Development

Logical Framework

Results Hierarchy	Indicators							Means of verification			Assumptions
	Name	Baseline	Mid-Term	End Target	Annual Result	Cumulative Result	Cumulative Result %	Source	Frequency	Responsibility	
Outreach	1.a Corresponding number of households reached							RIMS report	Annual	PMU	Major shocks or crises which could weaken project effects do not occur or are sufficiently mitigated.
	Non-women-headed households		35211	80000	3464	35211	44.0%				
	1 Persons receiving services promoted or supported by the project							RIMS report	Annual	PMU	
	Males		45633	90000	4200	45633	50.7%				
	Females		37300	45000	3402	37300	82.9%				
Goal Empower poor rural women and men to achieve higher income and sustainable improvement in their livelihoods	Poverty ratio (% of population) at rural poverty line							National poverty statistics	Every two years	PMU	Political stability. Major shocks or crises which could weaken project effects do not occur or are sufficiently mitigated.
	% of population at rural poverty line	35	33	30							
Objective To reduce poverty and improve livelihoods of poor herder and soum- and aimag-centre households in the project area	Improvement (%) in HH income							Baseline survey, Project MIS Measurement	Annual	PMU	Political stability. Major shocks or crises which could weaken project effects do not occur or are sufficiently mitigated.
	Improvement in household income		10	20							
	Improvement in HH assets ownership index							Baseline survey, CI survey	Annual	PMU	
	HH assets ownership index	30	40	50							
Outcome Outcome 1 Improved Pasture Management and resilience to Climate Change	3.2.2 Households reporting adoption of environmentally sustainable and climate-resilient technologies and practices							Annual CI survey	Annual	PMU	Incentives to implement the pasture management plans agreed by the PHGs are understood by PHG members and maintained.
	Total number of household members	0	5184	10368							

Output Output 1.1 Pasture Herder Groups (PHGs) formed and capacitated for improved pasture management	Number of groups (e.g. PHG) supported to sustainably managed natural resources and climate-related risks						Annual CI survey	Annual	PMU	Herders are willing to participate in group activities. Herders are willing to invest time in learning CC impacts and adaptation options for better pasture management.	
	Groups supported	0	264	408	0	120					29.4%
	People in NRM groups formed/strengthened - rangeland						Annual CI survey	Annual	PMU		
	Males		4804	12060		4744					39.3%
	Females		5839	12040		5799					48.2%
	People trained in community management topics						RIMS report	Annual	PMU		
	Women trained in other		2401	3600		2401					66.7%
Men trained in other		692	1500		692	46.1%					
Output Output 1.2: Soum-level investment for climate change adaptation prepared in a participatory way	Village/community plans (a.k.a. pasture management plan) formulated						RIMS report	Annual	PMU	PHGs participate in Bagh-and Soum-level meetings.	
	Plans formulated		120	264		120					45.5%
Output Output 1.3 Resilience of pasture land improved and monitored	Increase (%) of rangeland monitoring sites where improvement of pasture conditions reported						National rangeland monitoring database (NAMEM)	Annual	PMU	No major drought hit in the project areas; and PHGs agree on the common resource use plan.	
	Increase			50							
	Land under improved management practices						RIMS report	Annual	PMU		
	Hectares of land		42000	100000		164252					164.3%
Output Output 1.4 Soum Strategies for Pasture Management and Climate Change Adaptation developed	Number of strategies developed						Annual CI survey	Annual	PMU	ALAGAC procedures are followed	
	Number of strategies developed	0	7	14							
Output Output 1.5 M&E system for pastureland health at PHG level established and utilized	M&E indicators for pastureland health defined and utilized at PHG-level									PHGs agree on the set of M&E indicators and participate in voluntary M&E.	
	M&E Indicators		86	115							
Output Output 1.6 Soum-level investment for Climate Change Adaptation	People reporting improved preparedness to climate risk or winter (incl. hay making, hay storage, winter shelter, better access to water)						Annual CI survey	Annual	PMU	PHGs agree on the common resource use plan.	
	People	30	50	60							

Outcome Outcome 2 Pro-poor value chain strengthening at central, aimag and soum levels												
Output Output 2.1 Productivity of producers increased	Number of PHGs and womens' groups trained in production practices and technologies						Project MIS measurement	Annual	PMU	Steady value chain development		
	PHGs and women's groups		455	1000								
	1.1.4 Persons trained in production practices and/or technologies						RIMS report	Annual	PMU			
	Men trained in crop											
	Women trained in crop											
	Men trained in livestock		1172	3000	1172	39.1%						
	Women trained in livestock		710	2000	710	35.5%						
Output Output 2.2 Value addition of commodities increased	Number of PHGs and womens' groups trained in business development						Project MIS measurement	Annual	PMU	Steady business growth		
	Groups trained		355	1000								
	2.1.2 Persons trained in income-generating activities or business management						RIMS report	Annual	PMU			
	Females		834	1800	50	289					16.1%	
	Males		289	500	18	519					103.8%	
Output Output 2.3 Rural financing established and accessed by rural producers and enterprises	1.1.5 Persons in rural areas accessing financial services						RIMS report	Annual	PMU	Businesses are matured within the project years.		
	Men in rural areas accessing financial services - savings		40	250	40	16.0%						
	Women in rural areas accessing financial services - savings		355	500	355	71.0%						
Outcome Outcome 3 Enabling business environment for niche market	2.2.3 Rural producers' organizations engaged in formal partnerships/agreements or contracts with public or private entities						Annual outcome survey	Annual	PMU	SMEs are connected to buyers through associations.		
	Number of POs			5								
	Number of enterprises reporting adoption of new/improved inputs, technologies or practices						Annual outcome survey	Annual	PMU			
	Enterprises		8	38								

Output Output 3.1 Local Agri-business development plans prepared and services provided through association and local facilitators	2.1.4 Supported rural producers that are members of a rural producers' organization						Project MIS measures	Annual	PMU	SMEs are connected to buyers through associations.
	Females			1500						
	Males			1500						
Output Output 3.2 Niche products and brands developed and their market access enabled & Value Chain strengthened for the development of niche products	2.1.6 Market, processing or storage facilities constructed or rehabilitated						Project MIS measures	Annual	PMU	SMEs are connected to buyers through associations
	Market facilities constructed/rehabilitated		6	38						
Output Output 3.3 Result-based management system on agriculture and livestock	Number of meetings organized through functioning multi stakeholder platform						Project MIS measures	Annual	PMU	SMEs are connected to buyers through associations
	Meetings organized	0	0	6						
Outcome Outcome 4 Value addition in production and processing, and market access improved	2.2.2 Supported rural enterprises reporting an increase in profit						Project MIS measures	Annual	PMU	Successful identification of international and domestic buyers
	Percentage		20	50						
Output Output 4.1 Cooperatives (voluntary PHGs) formed to improve their market access	Number of PHG-cooperative members trained in income-generating activities and business management						Project MIS measures	Annual	PMU	Steady business growth
	PHG-cooperative members trained		1152	2304						
Output Output 4.2 Women's Groups (WGs) formulated and operational for business	People trained in income-generating activities and business management						Project MIS measures	Annual	PMU	Steady value chain development
	People trained		1607	3456						
	WG members trained in income-generating activities and business management						Project MIS measures	Annual	PMU	
	Women's group members		455	1152						
Output Output 4.3 Strengthened backward linkages of existing MSEs/cooperatives to poor HH	Increase in the number of contracts established to link with poor HHs						Project MIS measures	Annual	PMU	Steady business growth
	Increase		20	50						
Output Output 4.4 Financial Instruments	HH in rural areas accessing financial services						Project MIS measures	Annual	PMU	Businesses are matured within the project years.
	HH		1080	2160						