PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

Report No.: PIDA6295

Project Name	Third Sustainable Livelihoods Project (P125232)
Region	EAST ASIA AND PACIFIC
Country	Mongolia
Sector(s)	Sub-national government administration (50%), General agriculture, fishing and forestry sector (20%), Other social services (20%), M icrofinance (10%)
Theme(s)	Other environment and natural resources management (20%), Decentralization (20%), Rural services and infrastructure (20%), Other soc ial protection and risk management (20%), Participation and civic engagement (20%)
Lending Instrument	Investment Project Financing
Project ID	P125232
Borrower(s)	Mongolia
Implementing Agency	Ministry of Economic Development
Environmental Category	B-Partial Assessment
Date PID Prepared/Updated	30-Apr-2014
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Estimated Date of Appraisal Completion	05-Apr-2013
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Decision	

I. Project Context

Country Context

Over the past two decades, Mongolia has been through a remarkable political, economic and social transition. In addition to a robust democracy with contested elections at central and local levels, other democratic institutions have also flourished with a free media and the emergence of community based associations and non-governmental organizations. The country is moving away from a highly centralized budgetary system and attempting to reduce the distance between citizens and policy makers.

Mongolia is currently going through a period of rapid economic growth as world class mineral deposits are mined. Mongolia's GDP grew by 12.4 percent in 2012 and 11.7 percent in 2013. While the economic growth is expected to soften in the coming years due to increasing size of the economy, Mongolia will likely remain one of the fastest growing economies in the world and also an attractive destination for foreign investment if the investment regime continues to be improved.

This economic transformation will having profound effects on the society and economy and provide a powerful driver of change. The society and economy has traditionally been based on semi-nomadic herding of livestock with a largely rural population, which is a key part of the national identity and culture. However, the economy has shifted to be driven by several major mining projects which have quickly surpassed the livestock sector with respect to Gross Domestic Product (GDP) contribution. Although the livestock sector still accounts for approximately forty percent of employment, the sector (and with it the rural economy more generally) is rapidly losing its prominence. Economic opportunities are increasingly urban based and Ulaanbaatar, the country's capital, is growing rapidly as migrants from rural areas arrive searching to benefit from the rapid economic growth.

Mining booms often come with associated risks. These range from the "Dutch Disease", with its exposure to commodity price volatility, an appreciating currency and inflation, and unemployment in the non-mining sector, to the "natural resource curse", with rising corruption, deepening inequality, and social disruptions or even conflicts. A major challenge for the country is how to minimize and manage these risks and maintain stability, economically and socially. A major factor in this is how the country invests and distributes the significant revenues from the mining sector, including supporting those areas and communities not directly benefitting from mining revenues. The state's ability to do this will have consequences for the growth rate of the economy, the reduction of poverty and social inequality, the rate of urbanization and the achievement of social indicators.

While the mining-driven economy expands, rural areas are in danger of being left behind. Poverty rates are significantly higher among the population in rural areas (47 percent of households below the poverty line in 2008) than in urban centers (27 percent). While the overall rate of poverty in rural and urban areas has dropped considerably during the 2000s (the proportion of people living below the national poverty line has been almost halved between 2002 and 2008 when a consistent methodology is applied), the persistence of high poverty rates suggests that development challenges in rural areas in particular are still present.

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Sectoral and institutional Context

Rural Mongolia presents many development challenges. Mongolia is one of the most sparsely populated countries in the world, making the provision of adequate and good quality services, infrastructure and communication challenging and costly. Further, as much of the rural population is engaged in semi-nomadic herding, often living far from settlements, there are additional difficulties in the outreach of services. Economic opportunities (away from mining areas) are largely restricted to the livestock sector and, within this sector, mostly restricted to extensive forms of production dependent on access to pastureland, which is a fragile eco-system subject to degradation if over-grazed and mis-managed. The system is also highly vulnerable to the severe climate characterized by harsh, cold winters, which can cause high rates of livestock mortality (dzud).

In 2001, following two years of particularly hard dzud, when close to one third of all livestock in the country died, the Government of Mongolia (GOM) and the World Bank (WB) embarked on a partnership to address these challenges and to reverse the low levels of public and private investment flowing to rural communities. In the years preceding 2001, public expenditure had largely been restricted to recurrent costs with very little capital expenditure to support public

infrastructure. Access to credit, especially for herder households was also very limited. In 2002, the World Bank Board approved the first phase of a three-phase Adaptable Program Loan (APL) focusing on three major interventions: pastoral risk management, micro-finance outreach to deepen access to finance, including for livestock insurance, and community driven infrastructure and basic services development. This project is the third and final phase of this initiative.

The first phase (pilot phase) of the program (2002-2007) successfully demonstrated new approaches to livelihood support, focusing on rural areas, with the establishment of community development funds (the Local Initiatives Fund) which introduced the concept of community participation in the identification and implementation of priority investments, the Microfinance Development Fund (MDF), and developed new approaches for pastoral risk management. The feasibility of index-based livestock insurance was explored under the project and a separate IDA project - The Index-based Livestock Insurance Project - was approved in May 2005 and has developed an innovative commercial insurance product now available nationwide, and widely acknowledged as good practice for index-based insurance.

The second phase (scaling-up phase) of the Program (2007-2013) further developed and improved the approaches piloted under phase I and rolled the program out nationwide and provided considerable benefits to communities across the country. Up to 2013, over 6000 sub-projects were financed from the community development funds, the majority in the education and health sectors. The ICR reported that 84 percent of citizens (nationwide) were satisfied with the outcomes of these investments, and 86 percent satisfied with the procedures (for identification, implementation and supervision) and 86 percent felt that the investments were in line with their priorities. The participation of households in the project increased considerably, with high local meeting attendance rates. A Livestock Early Warning System (LEWS) has been scaled up and is now functioning nationwide and has been transferred to government (NAMHEM). Pastureland management and risk planning is being conducted nationwide. As of 2011, 69 percent of herders were taking actions to mitigate pasture risks, and 66 percent perceived improvements in local pasture conditions. The MDF has lent over US$42 million to financial intermediaries, with over 40,000 sub-borrowers, and is now a self-financing entity which is on track to transition into a stand-alone financial wholesale facility by the end of 2014. Program objectives set for micro-finance outreach have been met.

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The third phase of the program would suppor t the further institutionalization of the program's approaches. In this regard, the country has taken several significant legislative and policy initiatives to increase resource flows to rural areas and provide increased economic opportunities. In December 2011, Parliament passed the Integrated Budget Law (IBL), a major reform of public budgetary and expenditure system. The law became effective from January 1, 2013, and includes fiscal decentralization with far greater responsibility placed at the local level. In recognition of the fact that most local governments in Mongolia lack significant own revenue bases, the IBL also established a formula-driven intergovernmental transfer mechanism, the Local Development Fund (LDF). LDF's provide predictable and sizeable funds to support local level capital investment in public infrastructure and services. The Law specifies eligible areas for investment and also includes a negative list. Eligible expenditure includes pasture management related investment which should enable rural soums to enhance risk management and protect local pasture. Furthermore, the Law explicitly specifies that local governments must utilize LDF allocations in accordance with citizen priorities as identified through a robust process of community participation in budget preparation and execution, a major step forward in the empowerment of citizens and a

major reform of the citizen-government relationship.

The Government is also launching a new "Soum Initiative" to support local economic development. This was initiated through a Cabinet decision in February 2013. In this regard, the Ministry of Economic Development (MoED) has defined a number of core activities to implement the Soum Initiative, defining tiers of infrastructure requirements for public service provision and for economic activity. Through the implementation of medium term investment plans, soums are expected to move from basic levels of infrastructure to more developed levels supporting private sector activity. The focus of the Initiative is more on economic development than the LDF, which focusses on public infrastructure and public service delivery.

While the IBL is aimed at promoting fiscal decentralization, good governance, community participation and equity, the mechanism does not provide specific incentives for improved local government performance. In this respect, the LDF allocations could get considered as entitlements, and experience has shown both in Mongolia and many other countries that in the absence of incentives and effective central monitoring and evaluation, revenue sharing often leads to sub-optimal utilization of decentralized fiscal resources. The Soum Initiative is new and requires considerable strengthening and capacity building at the soum level to develop infrastructure which creates an enabling environment for private sector development.

The project would focus on supporting participatory processes and building capacity in the governmental structure to successfully implement the new LDF and the Soum Initiative program. In particular, it introduces an incentive mechanism to promote good governance at the soum level, rewarding those soums that embrace the participatory processes and incorporate good practice elements into their planning, budgeting, execution, monitoring and evaluation and fiduciary processes.

II. Proposed Development Objectives

The PDO is to improve governance and community participation for the planning and delivery of priority investments in rural areas of Mongolia.

III. Project Description

Component Name

Capacity Building for Local Governance and Livelihoods

Comments (optional)

(a) Provision, to local authorities and communities, of training and technical assistance related to the implementation of the Local Development Fund and Soum Program, in the areas of medium term planning, community participation, budget preparation and adoption, budget execution including procurement and supervision, reporting, and monitoring and evaluation and pastureland planning and management.

(b) Provision of technical assistance to the central public administration organizations in charge of economic and finance issues related to the development and implementation of the Soum Program and Local Development Fund.

Component Name

Good Governance Performance-Based Grants

Comments (optional)

(a) As an incentive for good governance, provision of Good Governance Performance-Based

Grants to Soums for the financing of activities under the Local Development Fund.
(b) Carrying out of annual performance assessments of Soums for the purposes of determining the allocation of Good Governance Performance-Based Grants.
(c) Provision of training to Good Governance Performance Assessment Teams.

Component Name
Project Management and Monitoring and Evaluation
Comments (optional)
Provision of technical assistance and training and acquisition of office and other equipment, to support implementation of the Sustainable Livelihoods Program, including support for Project implementation, staff training, information dissemination, monitoring and evaluation, financial management, and audit, of Project accounts.

IV. Financing *(in USD Million)*

Total Project Cost:	36.20	Total Bank Financing:	24.80
Financing Gap:	0.00		

For Loans/Credits/Others	**Amount**
BORROWER/RECIPIENT	0.00
International Development Association (IDA)	24.80
SWITZERLAND Swiss Agency for Dev. & Coop. (SDC)	11.40
Total	36.20

V. Implementation

A Project Implementation Unit (PIU) will be established within MoED for the day to day management of the project and would be overseen by a Project Steering Committee. Implementation would be guided by a comprehensive Project Implementation Manual (PIM), which will include detailed institutional arrangements at national, aimag and soum levels; policies and procedures for the internal financial management of the project; detailed procedures for centrally managed procurement to be conducted under the project; arrangements for monitoring and evaluation; and detailed arrangements for the institutional arrangements and implementation of Components 1 and 2.

The Steering Committee at central level will be comprised of all the relevant government agencies. The Steering Committee will focus on providing oversight of project implementation and ensuring sectoral coordination. The Committee would meet at least twice per year and be maintained throughout the project implementation period. Specific responsibilities would include the review and approval of annual work plans submitted by the PIU, review and approval of semi-annual implementation progress reports, provision of technical guidance to the PIU, including if required, proposed changes to the Project Implementation Manual. The membership of the Project Steering Committee will include at least the following ministries: MoED, MoF, Cabinet Secretariat, Ministry of Industry and Agriculture, Ministry of Health, Ministry of Education and Science, Ministry of Environment and Green Development, and Ministry of Population Development and Social Protection. It is proposed that the Project Director of the PIU serve as the Secretary of the PSC and that representatives from the World Bank and SDC in Ulaanbaatar participate in the meetings as observers.

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The PIU will be in charge of the day-to-day management and implementation of all project activities, including procurement, financial management, safeguards compliance and monitoring and evaluation. It would lead the preparation of annual project implementation plans, semi-annual progress reports, annual financial management reports, project baseline, midterm and completion reports. The PIU would be staffed by a Project Manager, Heads of the Project Implementation Unit and Finance Unit, and include staff responsible for procurement, financial management, disbursement, monitoring and evaluation and communication. The PIU would comply with the GoM "Guidelines for Implementation of Projects financed by Foreign Loans and Grant Aid" issued in 2011.

For Component 1, the PIU would be responsible for the recruitment of the SSTs, and subsequent supervision of these teams, and for the procurement of providers of technical back-stopping and training for the SSTs and additional technical assistance, as required, for support to national level institutions. Under Component 2, the PIU would be responsible for the arrangements for the Annual Performance Assessments, including the contracting of independent assessment teams, and for organizing the Working Group, to be established each year to review the findings of the APAs, determine the level of PBGs to be allocated and agree the soums which have qualified to receive these top-up funds. The Working Group would report to the Steering Committee.

The PIU would coordinate with the Local Development Fund Division within the Fiscal Policy and Planning Department of MoF, created in February 2013 during a reform of the Ministry. The LDF Division has the primary responsibility for the implementation of the LDF, which includes the determination of the size of the general LDF (based on the formula provided in the IBL) and the calculation of the allocations to aimags and soums. The LDF Division also has the lead role in the preparation and revision of the LDF Guidelines, which are under development to provide detailed guidance to aimag and soum level authorities for LDF operations. Under SLP3, the LDF Division would have a key role in the projects: i) to review the adequacy of training and guidance materials to be utilized by SSTs for capacity building at soum level to ensure consistency with the LDF Guidelines; ii) to be a member of the Working Group to review the findings of the APAs; and iii) to support the development of the MIS for the LDF, which would be housed in the Division.

Partnerships: The project will be co-financed and implemented in close collaboration with the Swiss Agency for Development and Cooperation (SDC) and the IDA. Specifically, SDC would finance the majority of the Good Governance sub-component of Component 1, the Annual Performance Assessments under Component 2 and M&E functions under Component 3. In this regard, both SDC and IDA will have observer status on the Project Steering Committee

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	×	
Natural Habitats OP/BP 4.04	×	
Forests OP/BP 4.36		×
Pest Management OP 4.09		×
Physical Cultural Resources OP/BP 4.11		×
Indigenous Peoples OP/BP 4.10	×	
Involuntary Resettlement OP/BP 4.12		×

Safety of Dams OP/BP 4.37		×
Projects on International Waterways OP/BP 7.50		×
Projects in Disputed Areas OP/BP 7.60		×

Comments (optional)

VII. Contact point

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