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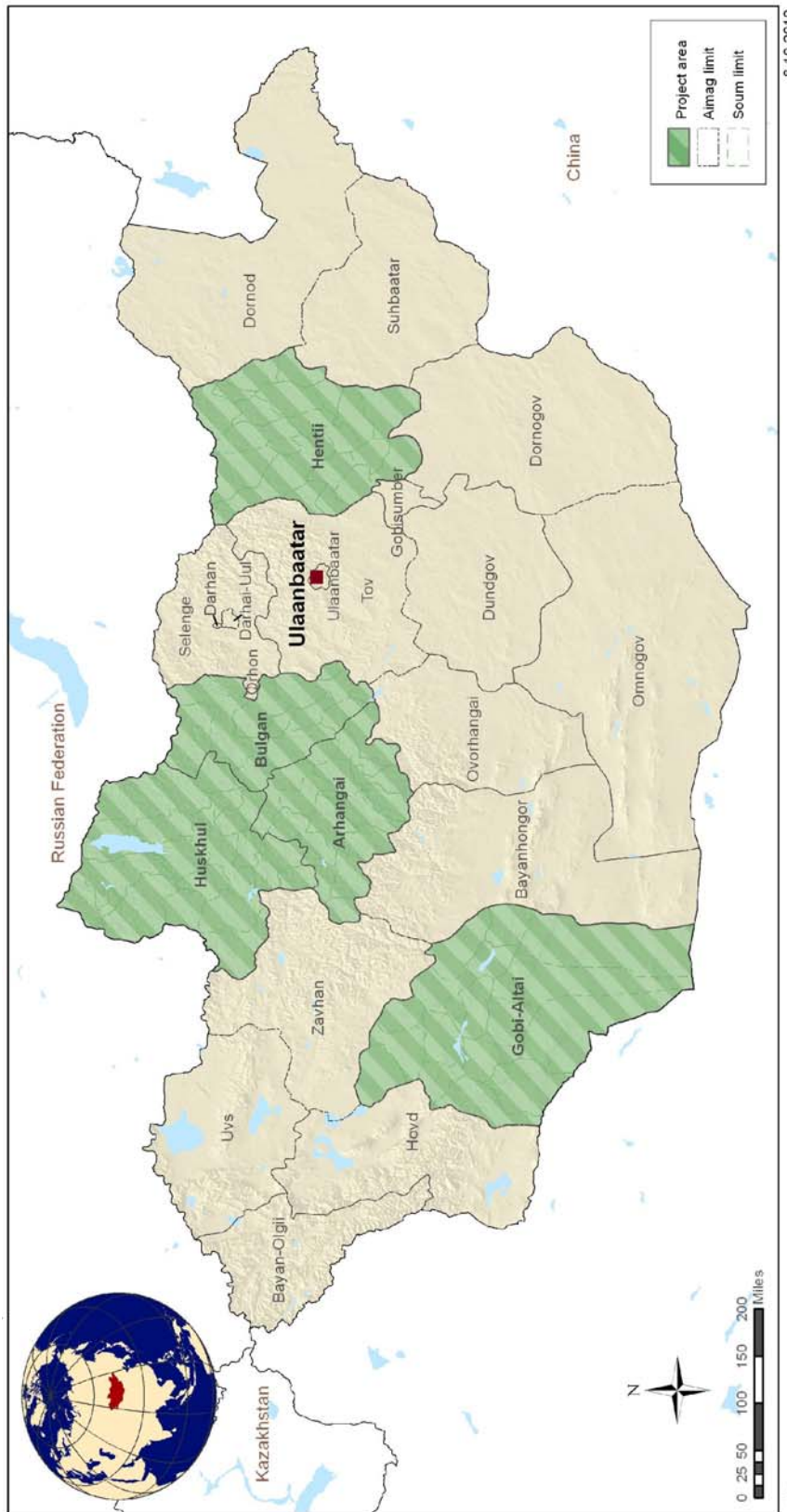
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## Negotiated financing agreement: "Project for Market and Pasture Management Development"

(Negotiations concluded on 20 April 2011)

Loan Number: \_\_\_\_\_

GEF Grant Number: \_\_\_\_\_

Project Title: Project for Market and Pasture Management Development (the "Project")

The International Fund for Agricultural Development (the "Fund" or "IFAD")

and

Mongolia (the "Borrower/Recipient")

(each a "Party" and both of them collectively the "Parties")

WHEREAS the Fund has agreed to provide financing in the form of a Loan to support the Borrower/Recipient's Project; and

WHEREAS the Global Environment Facility (GEF) through its Special Climate Change Fund (SCCF) will provide an additional grant to the Fund (the "GEF Grant") of approximately one million and five hundred thousand United States dollars (USD 1 500 000) equivalent to finance the implementation of the Project's activities related to adaptation to climate change;

NOW THEREFORE, on the basis of the above and other considerations, the Fund has agreed to make available to the Borrower/Recipient the Loan and the GEF Grant to the extent that the GEF grant is made available to the Fund, and the Parties hereby agree as well as follows:

### Section A

1. The following documents collectively form this Agreement: this document, the Project Description and Implementation Arrangements (Schedule 1), and the Allocation Table (Schedule 2).
2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, as amended in September 2010, (the "General Conditions") are annexed to this Agreement, and all provisions thereof, as may be amended from time to time, shall apply to this Agreement. For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein.
3. The Fund shall provide a Loan and a GEF grant to the Borrower/Recipient (the "Financing"), which the Borrower/Recipient shall use to implement the Project in accordance with the terms and conditions of this Agreement.

### Section B

- 1 A. The amount of the Loan is seven million and two hundred fifty thousand Special Drawing Rights (SDR 7 250 000), equivalent to approximately eleven million and five hundred thousand United States dollars (USD 11 500 000) at the time of the initialization of this Agreement in April 2011.

B. The amount of the GEF Grant is one million five hundred thousand United States dollars (USD 1 500 000).

C. Amounts received from the GEF to be used for the Project shall be credited to the GEF grant account as they are received by the Fund. The Fund shall be under no obligation to provide any amount of the GEF grant to the Borrower/Recipient until it has received such amount from GEF.

2. The Loan is granted on highly concessional terms.
3. The Loan Service Payment Currency shall be the USD.
4. The first day of the applicable Fiscal Year shall be 1 January.
5. Payments of principal and service charge shall be payable on each 1 March and 1 September with payments of principal commencing on 1 September 2021 and ending on 1 March 2051.
6. 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. The IFAD Designated Account shall be operated by the Project Manager.
7. 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. The GEF Designated Account shall be operated by the Project Manager.
8. 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.
9. The Borrower/Recipient shall exempt all duties and taxes associated with the Project.

### **Section C**

1. The Lead Project Agency shall be the Borrower/Recipient's Ministry of Food, Agriculture and Light Industries (MOFALI).
2. For the purpose of the General Conditions, the implementing agencies for this Project are additional Project Parties.
3. The Project Completion Date shall be the fifth anniversary of the date of entry into force of this Agreement.

### **Section D**

The Financing will be administered and the Project supervised by the Fund in collaboration with the GEF for the activities financed by the GEF Grant.

### **Section E**

1. The following are designated as additional general conditions precedent to withdrawal:

- (a) 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;
- (b) the Designated accounts and the Project accounts shall have been opened;
- (c) the Project Steering Committee shall have been established.

2. The following is designated as additional specific condition precedent to withdrawal under category V (loan guarantees) from the Loan: the Loan Guarantee Fund Board has been established and the Loan Guarantee Operational Manual has been approved by IFAD.

3. This Agreement is subject to ratification by the Borrower/Recipient.

4. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Fund:

(Name)  
 International Fund for Agricultural Development  
 Via Paolo di Dono 44  
 00142 Rome, Italy

For the Borrower/Recipient:

(Name)  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

This agreement, dated \_\_\_\_\_, has been prepared in the English language in six (6) original copies, three (3) for the Fund and three (3) for the Borrower/Recipient.

\_\_\_\_\_  
 For the Fund  
 (insert name and title)

\_\_\_\_\_  
 For the Borrower/Recipient  
 (insert name and title)

## Schedule 1

### *Project Description and Implementation Arrangements*

#### I. Project Description

1. *Target Population.* The project target group will include women and men from herder households and from Soum and Aimag centre households; and female headed households and households classified by the local government as poor and vulnerable in the lists at Bagh and Soum level, in the Aimag of Huskhul, Arhangai, Bulgan, Henti and Gobi-Altai (the "Project area").
2. *Goal.* 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.
3. *Objectives.* 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.
4. *Components.* The Project shall consist of the following Components: (a) Market development; (b) Pasture management and climate change adaptation; and (c) Project management and policy support.

**4.1 Market development.** The component will promote poverty reduction and livelihood improvement through economic development at two different levels. It thus consists of two main activities: (a) value chain development, and (b) small enterprise development.

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 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.

4.1.2 Small enterprise development. The Project will determine the feasibility of establishing local small scale processing units at the level of two or three Soums. Investments may include e.g. vegetables processing, milk collection, powder milk production, slaughter house and meat processing, or any other such activity. Investment in economic diversification such as in services and tourism inter alia, may also be considered. Investments will be undertaken jointly by producer groups and private buying companies.

*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 MOFALI 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.

**4.2 Pasture management and climate change adaptation.** The component will consist of two sub-components: (a) Pasture management, and (b) Climate change adaptation.

4.2.1 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.

4.2.2 Climate change adaptation. This sub-component will be co-funded by the GEF Grant and will provide the resources for implementation of the pasture management plans of PHGs and of specific measures to increase the capacity and resilience of herders to cope with climate change impacts and manage pastoral risks. Specific investments identified in the pasture management plans will include collective activities such as: construction of new shallow wells for livestock watering (to extend access to grazing areas), fencing of hayfields for winter pasture conservation and fodder preparation, construction of winter shelters for livestock, and fencing of wetlands and water sources to protect from degradation by overgrazing and trampling. The project will support measures to increase the capacity of PHG communities to adapt to climate change and manage pastoral risk. Implementation of the whole component will be contracted out to an experienced and qualified NGO or consortium of NGOs.

**4.3 Project management and policy support.** The project will be implemented under the responsibility of the Ministry of Food, Agriculture and Light Industries (MOFALI). 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 MOFALI. 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.



## II. Implementation arrangements

5. *Lead Project Agency.* The Ministry of Food, Agriculture and Light Industries (MOFALI) shall be the Lead Project Agency and shall have overall responsibility for Project implementation.

6. *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 act 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.

7. *Project Management Unit (PMU).* The project's executive responsibility is vested in the Project Management Unit. The Project Manager is the head of the Unit, applying the project strategy of outsourcing the implementation to experienced and reputable service providers on the basis of approved AWPBs. The Project Manager will be recruited through a competitive process and after obtaining IFAD's no objection. The PMU will be responsible for planning and budgeting, contracting of service providers, contract supervision, financial management and Monitoring & Evaluation.

8. *Annual Work Plan and Budget.* Separate AWPB will be prepared for IFAD and for GEF expenditures.

9. *Procurement.* Modalities for the procurement will be specified in each of the Implementation agreements.

10. *Implementation strategy.* The project strategy is to outsource implementation to experienced and reputable service providers. Activities under the market development component will be contracted out to experienced and reputable service providers (implementing agencies), such as national NGOs, international NGOs with a presence in Mongolia, Business Development Services, and National Consultant firms. The implementation of the guarantees and the microfinance sub-component will be entrusted to the MDF. The implementation of the Pasture management and climate change component will be assigned to an experienced and reputable service provider also. An Implementation Agreement will be signed between each service provider and the PMU for the outsourcing of implementation activities/components. Before concluding the said agreements, the IFAD no objection must be obtained. Service providers will be selected through competitive bidding preceded by a pre-qualification process.

**Schedule 2***Allocation Table*

1. *Allocation of Loan and GEF grant Proceeds.* The Table below sets forth the Categories of Eligible Expenditures to be financed by the Loan and GEF grant proceeds and the allocation of the amounts of the Loan and GEF grant to each Category and the percentages of expenditures for items to be financed in each Category:

**Part A**

Category	Loan Amount Allocated (expressed in SDR)	% of Eligible Expenditures to be Financed
I. Civil works	320 000	100% net of taxes
II. Vehicles, equipment	170 000	100% net of taxes
III. Inputs		
a. Tools, materials	1 030 000	100% net of taxes
b. Economic Development Costs	1 200 000	100% net of taxes
IV. Group formation & Project Grants	780 000	100% net of taxes
V. Loan guarantees	1 930 000	100% net of taxes
VI. Field & Management staff, operating costs and maintenance	1 100 000	100% net of taxes
Unallocated	720 000	
<b>Total</b>	<b>7 250 000</b>	

**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, inputs	340 000	100% net of taxes
b. Economic Development Costs	930 000	100% net of taxes
VI. Field & Management staff, operating costs and maintenance	22 000	100% net of taxes
Unallocated	148 000	
<b>Total</b>	<b>1 500 000</b>	

## **Key reference documents**

Agriculture Sector Development Strategy 2006-2015

National Programme for Food Security 2009-2016

### **IFAD reference documents**

Mongolia Strategy and Inception Report (2007)

IFAD Strategic Framework 2007-2010

IFAD Climate Change Strategy

Project design document (PDD) and key files

Administrative Procedures on Environmental Assessment

## Logical framework

Narrative Summary	Verifiable Indicators	Means of Verification	Assumptions/Risks
<b>Development Objective</b>			
Reduce poverty and improve livelihoods of poor herder households in the project area	- Improvements in household assets ownership index and in household income	- Baseline and completion impact surveys (including RIMS)	- Major shocks which could weaken project effects do not occur; or are sufficiently mitigated
<b>Immediate Objectives</b>			
<ul style="list-style-type: none"> <li>Members of herder groups earn premium incomes through direct sales</li> <li>Pilot small enterprises have been established</li> <li>Joint liability groups, mostly with women, use micro-finance to diversify economic activities</li> </ul>	- Improvement in household income from livestock and/or crops by 20%; - About 500 households involved as suppliers to pilot small enterprises - about 550 Self Help Groups properly functioning	- Value chain feasibility analysis - Small enterprise feasibility studies - MDF progress reports - Project progress reports - Project M&E reports - Supervision reports	- Macro-economic stability and growth - Effective poverty-reduction policies - Monetary policies contain inflation at single digit levels.
Pasture Herders Groups plan and manage livestock and pastures in a more sustainable manner	- Local governments formally recognize pasture unit boundaries and pasture management plans.	- Baseline and completion impact surveys, Pasture Herder Group's monitoring reports	- Government support policies remain in place
<b>Outputs</b>			
Value chain development	- 100 value chains supported and effectively operating	- Companies' annual reports - Project progress reports	- Steady economic growth
Small enterprise development	- 5 pilot enterprises established	- Project progress reports	- Steady economic growth
Micro-enterprise development	- 600 Self Help Groups established	- Project progress reports	- Steady economic growth
Loan Guarantee scheme	- Amount of guarantees disbursed - Amount of actual risk funds called	- Project progress reports	- Financial sector recovers fully
Effective pasture management organizations created and management plans approved	- At least 115 Pasture Units and Pasture Herder Groups established.	- Pasture management plans - PHG Certificates and contracts	- Continued (local) government support for the implementation of the Land Law
Investments completed in activities identified in the Pasture Management Plans	- At least 80% of PU pasture land under improved management practices	PHG annual implementation review reports – consolidated by service provider	- Continued (local) government support for the implementation of the Land Law - Adoption of the Pasture Law
Knowledge of herders and local government to adapt to climate change increased	- 80% of members of PHG's trained in improved pasture management practices	- Implementation progress reports by service provider	