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REPORT AND RECOMMENDATION OF THE PRESIDENT

TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO

MONGOLIA

FOR THE

RURAL POVERTY- REDUCTION PROGRAMME



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CURRENCY EQUIVALENTS

Currency Unit	=	Mongolian tugrik (MTG)
USD 1.00	=	MTG 1 108
MTG 1 000	=	USD 0.903

WEIGHTS AND MEASURES

1 kilogram (kg)	=	2.204 pounds (lb)
1 000 kg	=	1 metric tonne (t)
1 kilometre (km)	=	0.62 miles (mi)
1 metre (m)	=	1.09 yards (yd)
1 square metre (m ²)	=	10.76 square feet (ft ²)
1 acre (ac)	=	0.405 ha
1 hectare (ha)	=	2.47 acres

ABBREVIATIONS AND ACRONYMS

ARPAP	Arhangai Rural Poverty Alleviation Project
AsDB	Asian Development Bank
IGA	Income-Generating Activity
MWF	Mongolian Women's Federation
NPSC	National Programme Steering Committee
PIU	Programme Implementation Unit
PR	Programme Review
PRA	Participatory Rural Appraisal
PRFI	Participating Rural Financial Institution
PRSP	Poverty-Reduction Strategy Paper
PSU	Programme Support Unit
RMMC	Rangeland Management and Monitoring Committee
RPRP	Rural Poverty- Reduction Programme
UNOPS	United Nations Office for Project Services
WAs	Women's Associations

GLOSSARY

<i>Aimag</i>	Province
<i>Bag</i>	Sub-District
<i>Dzud</i>	Severe winters
<i>Khural</i>	Parliament or elected body
<i>Soum</i>	District

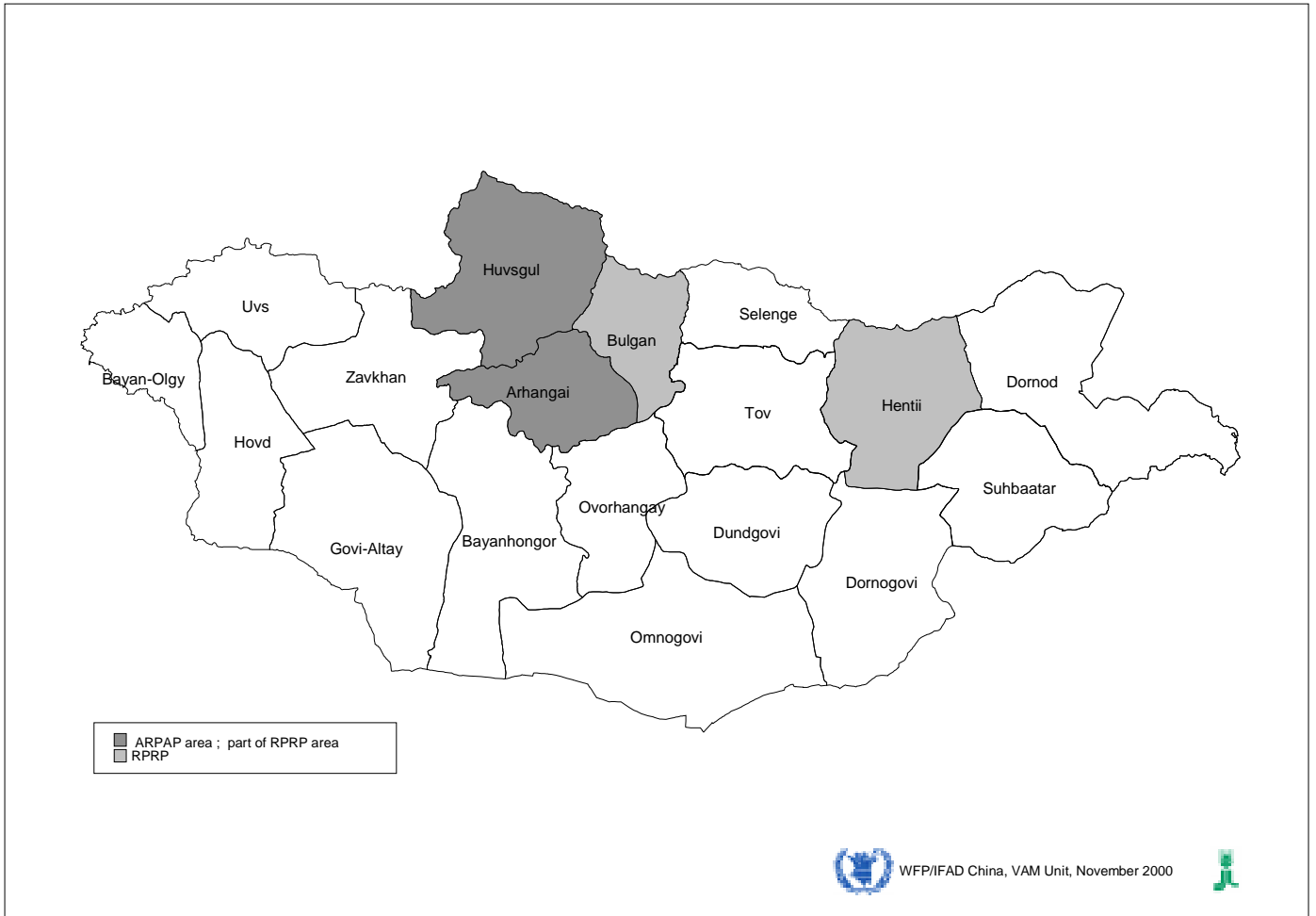
GOVERNMENT OF MONGOLIA

Fiscal Year

1 January - 31 December



MAP OF THE PROGRAMME AREA



Source: IFAD Appraisal Report.

The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.



MONGOLIA
RURAL POVERTY- REDUCTION PROGRAMME
LOAN SUMMARY

INITIATING INSTITUTION:	IFAD
BORROWER:	Mongolia
EXECUTING AGENCY:	Ministry of Food and Agriculture
TOTAL PROGRAMME COST:	USD 19.1 million
AMOUNT OF IFAD LOAN:	SDR 11.2 million (equivalent to approximately USD 14.8 million)
TERMS OF IFAD LOAN:	40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum
CONTRIBUTION OF BORROWER:	USD 2.7 million
CONTRIBUTION OF NETMON LLC AND XACBANK LLC:	USD 1.6 million
APPRAISING INSTITUTION:	IFAD
COOPERATING INSTITUTION:	United Nations Office for Project Services (UNOPS)



PROGRAMME BRIEF

Who are the beneficiaries? The target group comprises 80 000 households, equal to 90% of the total population of the four *aimags* (provinces) that have been selected from the poorest in the country. Poverty prevails throughout practically the entire rural population, including the residents of the *aimag* and *soum* (district) centres. Almost all households range from poor to very poor and live in exceptionally harsh conditions with limited food availability and negligible cash income. In addition, a new group of very vulnerable poor households, consisting of single women with young children, has appeared in rural centres, representing almost 15% of the population there. In general, women form a significant part of the target group because they experience inferior social and economic standing, despite the fact that they tend to be better educated than men.

Why are they poor? Basic infrastructure, such as social services and roads, is very poor due to difficult terrain and high per capita construction costs, coupled with lack of funds. This makes life difficult for local people, who live in isolation, with limited access to markets, inadequate education and health care, and few opportunities for income-generation. Many herder households live in precarious circumstances on the ranges or in *bag* (sub-district), where, apart from herding, opportunities for livelihoods are almost non-existent. Since the disappearance of livestock marketing activities in the rural centres, these areas have suffered from a lack of social amenities, a high incidence of unemployment and poor income-generating opportunities. Loss of employment and income has pushed many families in rural areas into poverty. Their situation cannot be compensated for by social security payments, as these were eroded under the strong inflationary pressures that existed until the late 1990s. Herding, traditionally the main strength of the economy, was adopted by many poor households as a way of assuring some livelihood. The result has been an influx of a large number of new herders with small herds, an uncertain commitment to the profession, little practical knowledge and, often, a persistent socio-economic link to the urban centres where other family members still have some income. The recent sequence of adverse winters and summers has disproportionately affected these new herders.

What do they expect from the programme? The priority needs expressed during participatory rural appraisal (PRA) training exercises and during field visits were: (i) support for herding as a perennial livelihood; (ii) creation of opportunities for non-herding income-generating activities (IGAs); and (iii) improvements in social services, particularly in primary education and health care among the isolated herder communities. Communities, individual households and public support services share an awareness of constraints and opportunities; however, they lack the financial, technical and human resources to deal with them effectively.

How will they participate? Participatory rural training workshops were conducted during the formulation process. Further training sessions will be held in the stages leading up to the establishment of rangeland management and monitoring committees (RMMCs) at local community level. The RMMCs will have the tasks of: (i) bringing together members of the community to discuss and prioritize investment options for the area; (ii) formulating the local natural resource management map and the associated overall development plans; (iii) disseminating information about Rural Poverty-Reduction Programme (RPRP) activities to all households; (iv) monitoring programme implementation and its impact on the population; (v) overseeing loan disbursement, supervision and recovery in the interest of the community; and (vi) ensuring that activities are properly targeted and progress is monitored.



**REPORT AND RECOMMENDATION OF THE PRESIDENT OF IFAD
TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO
MONGOLIA
FOR THE
RURAL POVERTY- REDUCTION PROGRAMME**

I submit the following Report and Recommendation on a proposed loan to Mongolia for SDR 11.2 million (equivalent to approximately USD 14.8 million) on highly concessional terms to help finance the Rural Poverty-Reduction Programme (RPRP). The loan will have a term of 40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum. It will be administered by the United Nations Office for Project Services (UNOPS) as IFAD's cooperating institution.

PART I - THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY¹

A. The Economy and Agricultural Sector

1. Mongolia is totally landlocked and covers an area of 1.57 million km². With only 2.4 million inhabitants (2000), it is one of the least densely populated countries in the world, i.e. 1.7 inhabitants per km². About 60% of the population resides in urban areas, of which the capital Ulaan Baatar alone accounts for almost 50%. During the last decade, the Government of Mongolia has undertaken a transition to a market economy by launching a series of reforms. As a result, and after years of depression, an economic recovery has begun. Gross domestic product (GDP) growth rate increased from -2.5% in 1992 to 2.3% in 1994, and has remained positive ever since. Inflation gradually fell from 325.5% in 1992 to 7.6% at the end of 2000. Since 1996, the open unemployment rate gradually decreased to only 4.6% of the labour force at the end of 2000. However, policies implemented in the economic sphere were not accompanied by social policies to improve living standards and mitigate the impacts of transition.

2. In the rural areas, the majority of the population comprises semi-nomadic herders. Only 42% of the population lives in rural centres, which are mainly rural settlements of a few hundred households. The predominant economic activities in Mongolia are all closely related to herding. The herder community produces the resources, including raw materials, for other sectors to process. As a result, many rural services revolve around herding. Subsequent to the market liberalization policies of the early 1990s, the number of officially registered herders has increased from about 145 000 in the early 1990s to just under 200 000 households today, representing more than 40% of the national population. Over the same period, the national herd has increased by 30% to 34 million herds in 1999. The consecutive *dzuds* (severe winters) of 1999-2000 and 2000-01 have meant the loss of some 7 million heads of livestock, and the national herd has not yet fully recovered from this calamity. Mongolia used to export several hundreds of thousands of tonnes of cereals annually to Russia. This production system largely disappeared after the privatization of state farms. Today, Mongolia's agricultural sector is unable to cover the national requirement of bread cereals. Only the centrally located *aimags* (provinces) have significant crop production. Farming today consists mainly of vegetable cultivation, including potatoes

¹ See Appendix I for additional information.



as the secondary staple crop, and is principally aimed at satisfying demand from urban areas and meeting household nutritional needs.

B. Lessons Learned from Previous IFAD Experience

3. A first loan of USD 5.04 million was approved in April 1996 to finance the Arhangai Rural Poverty Alleviation Project (ARPAP). The core activity of ARPAP is a livestock redistribution scheme, based on credit-in-kind, to redistribute stock to poor herders with animals purchased from large herders. Poor, non-herder households, particularly woman-headed households, are supported with short-term loans for vegetable production and income-generating activities (IGAs) to enhance food security and cash income. A very positive impact of the project has been the introduction of participatory thinking and the lifting out of poverty of about 4 000 households. By end 2001, the income of the project beneficiaries had increased by 1.9 times from herding and by 1.7 times from IGAs. In particular, the promotion of vegetable cultivation has brought unforeseen benefits. Vegetable production has improved the food security of the producing households, while the surplus has been sold to herder families, raising their nutrition level. Moreover, this success has allowed some vegetable growers to reconstitute a herd through barter with livestock.

4. Major lessons learned from the ARPAP experience are:

- (i) **Management and coordination.** The programme implementation unit (PIU) has proved to be an effective implementation structure under the guidance of the national steering committee. Overall PIU was, perhaps, overly reliant on implementing officers while underutilizing the considerable strengths available within the public and private services. A major issue has been the long delay in approving the subsidiary loan agreement.
- (ii) The project developed excellent participatory targeting mechanisms based on a solid set of beneficiary-based selection criteria for livestock. It is now opportune to introduce more participatory, client-responsive management methods to ensure greater decision-making power by herder committees, to increase their commitment to sustainable rangeland management.
- (iii) Due to the lack of financial intermediaries, PIUs managed a credit-in-kind delivery system for livestock distribution and IGAs. They have handled the credit component with great precision in terms of targeting and record-keeping. Due to the improving economic climate, a suitable participating rural financial institution (PRFI) has been identified.
- (iv) The project requested beneficiaries to graze their herds away from rural centres. This has, however, proved difficult to enforce, and localized overgrazing persists. More attention should be given to the promotion of hay production, rangeland restoration, water supply systems and the organization of traditional herder associations for rangeland management.
- (v) A strong in-country resource group has been established, drawing on national expertise and project design and supervision consultants. This group has demonstrated its strategic potential in supporting IFAD policy dialogue, the poverty-reduction strategy paper (PRSP) process, the new project design and IFAD's profile in general.

C. IFAD's Strategy for Collaboration with Mongolia

5. **Mongolia's policy for poverty eradication.** In Mongolia, poverty was unknown until 1990. By 1995, it was estimated that over one third of the population had incomes that placed them below the poverty line. The gender aspects of poverty are complex. On average, women are better educated than men. However, although they hold many important positions in public and private institutions, they



were also the first to lose their jobs in the early 1990s. Today, there is a marked feminization of poverty, reflected by the higher incidence of poverty among woman-headed households. The average per capita poverty line is estimated at about USD 14 per month, or about USD 0.5 per day. In 2000, the national statistics office conducted the Participatory Living Standard Assessment (PLSA) using participatory methods to deepen the understanding of poverty. The survey also provided an opportunity for the rural poor to be heard at the national policy level. The commitment by the current Government to prioritize poverty alleviation is reflected in its Action Programme 2000-04. This programme is based on a market-oriented and export-driven approach to economic development and poverty alleviation. Emphasis is on the creation of job opportunities, fuelled by credit and professional training, and on strengthening the resilience of herders to natural calamities and mitigating their impact. A broadly based multisectoral poverty alleviation approach is under preparation. During 2001, the Government presented an interim PRSP, with substantial financial assistance from the World Bank. The priority policy issues are a reduction in unemployment, public sector management, improved basic service access and delivery, and an increase in living standards. The Government recognizes that the interim PRSP does not sufficiently address rural poverty and has requested IFAD to assist in the final stage of PRSP development.

6. **Poverty eradication activities of other major donors.** Since the early 1990s, the National Poverty Alleviation Programme has attracted major donor funding from the World Bank and the United Nations Development Programme (UNDP). The programme attempts to tackle poverty on a broad front and sees poverty alleviation as a combination of short and long-term actions, coupling enhanced production with stronger service delivery. The World Bank is developing the Sustainable Livelihoods Project in eight provinces as a successor to the programme. The Asian Development Bank (AsDB) has prepared an agriculture sector development programme in the western provinces.

7. **IFAD's strategy in Mongolia.** IFAD participated in the development of the poverty-alleviation programme between 1994-95 and designed a first project to assist poor herder communities in taking full advantage of the potential of the market-oriented economy. Moreover, support was to be provided for IGAs, especially for poor non-herding households. The project started implementation in 1996 and, based on early project experience, a country strategic opportunities paper (COSOP) was prepared in late 1998. The paper identified livestock as the core activity. However, stronger focus was required on technical support services, participatory rangeland management, rural finance capacity-building and the promotion of IGAs.

8. **Programme rationale.** Livestock activities under nomadic management are the predominant source of livelihood; therefore, building up a viable herd is essential. However, the increasing livestock numbers and inappropriate rangeland management techniques are aggravating rangeland degradation. Degradation is particularly marked near the rural centres, where new herders tend to live. Moreover, many wells are in disrepair, limiting the grazing orbit and increasing grazing pressure. As former employees of state companies, the majority of rural residents are now unemployed or survive on small, insecure incomes. They suffer from declining service quality and decreasing numbers of schools and health centres. Worst hit are the isolated locations, where the majority of herders live. A major concern is the unacceptably large number of children dropping out of school. Moreover, extension services are suffering from a decade of neglect and scaling down. The few existing financial services do not serve the poor, disadvantaged rural population. However, one encouraging sign is the recent creation of a small but significant number of formal enterprises, usually employing less than ten people and almost without assistance. To overcome the prevailing constraints, the programme will conduct multisectoral activities aimed at enhancing the production potential and capabilities of the rural population. The RPRP aims to mobilize the three basic elements needed for sustainable development: the beneficiaries, technology and institutions.



PART II - THE PROGRAMME

A. Programme Area and Target Group

9. **Programme area.** The RPRP area covers about 285 000 km², representing 22% of the natural surface area. It comprises four of the poorest *aimags* in the country, Arhangai, Bulgan, Hentii and Huvsgul. Total population in 1999 was 354 200 inhabitants, or 17% of the country total. This implies an average population density of about 1.2 inhabitants per km². The number of households is about 88 000 with an average household size of four. About 7 500 households are woman-headed, representing more than 8% of the total. The population is predominantly rural. The rural centres shelter only 26% of the total population, who live mainly in small *bag* or belong to *khot ails* (semi-nomadic herder groups, often lineage-based).

10. The climate is predominantly continental, with long cold winters and short warm summers. Frost-free periods generally last only between 70 and 120 days, placing severe constraints on cropping. These constraints are accentuated in high altitude areas. Altitude varies from peaks of over 3 500 metres above sea level (m.a.s.l.) to low plains of between 1 000 and 1 250 m.a.s.l. Precipitation is mono-modal with the highest rainfall occurring from June to August. Winter snow contributes only marginally to overall water supply.

11. The predominant farming system is semi-nomadic herding in the vast, open rangelands. Almost all the land is suitable for herding. The RPRP area comprises three rangeland types: the high mountain zone, forest steppe zone and steppe zone. Pasture and water availability are the key factors determining rangeland management. Over the last decade, the number of wells in the rangelands fell by 40-60%. Since limited water supplies can seriously damage the ranges, ruined wells badly need repair, especially in the drier steppe areas. The low *aimags* have suitable soil conditions for horticultural activity. However, sparse precipitation and the limited annual frost-free period place serious constraints on open-air cultivation, resulting in low yields and a reduction in profitability. Adequate inputs and training are two key factors in increasing production. For poor and very poor households, potato and vegetable production plays an important role in improving food security and diet, and in generating income.

12. **Target group.** In 1999, the average per capita income of the target group was less than USD 0.5 per day, the equivalent of possessing fewer than 100 head of livestock. Most households range from poor to very poor and live in exceptionally harsh conditions with limited food availability and negligible cash income. During participatory rural appraisal (PRA), herders categorized themselves as follows: those with more than 500 head of livestock were 'rich', those with 100 to 500 head were 'medium', while those with fewer than 100 head were either 'poor' or 'very poor'. In rural centres, the level of poverty does not receive adequate attention and is in many respects a more severe and intractable phenomenon. Due to the breakdown of state companies, the rural poor lost their jobs and now suffer substantial income erosion. Poverty is migrating from the rural centres to the herder communities, often in the form of 'new' herders.

13. About 90 to 95% of rural households or about 80 000 households in the RPRP area are formally eligible to participate in the programme. About three quarters of these belong to the herder community while the remainder are residents of rural centres. Women form a significant part of the target group in rural centres, of which woman-headed households are a particularly vulnerable group. Virtually unknown ten years ago, this group of single women with young children has grown rapidly over recent years. Today, woman-headed households with young children account for 8% of all households in the RPRP area. Their lack of regular cash income usually equates to destitution.



B. Objectives and Scope

14. The long-term goal of the RPRP is to achieve sustainable and equitable poverty eradication for about 80 000 vulnerable rural households living in an environment with increasingly degraded natural resources. The overall objective is to increase sustainably the productive capacity of herders, cultivators and the general public, and to offer increased access to economic and social resources, including education, health and social services.

15. The specific effects of the RPRP activities will be: (i) strengthened rangeland management systems and increased herder resilience to natural calamities; (ii) strengthened livestock support services and establishment of *dzud* emergency funds; (iii) establishment of poverty and gender-sensitive livestock and crop extension services and implementation of a training programme; (iv) support to IGAs established; creation of about 77 IGA promotion centres, training and inputs provided to about 18 000 vegetable cultivators and participation by about 8 400 non-agricultural households in IGA training; (v) establishment of poverty and gender-sensitive rural financial services and provision of about 10 500 loans and training to herder and non-herder households; (vi) improved rural social services, i.e. training programmes for woman-headed households, implemented by the Mongolian Women's Federation (MWF), rural schools and health centres rehabilitated, and staff trained; and (vii) beneficiary-responsive management institutions established at all levels in the programme area.

C. Components

16. The RPRP components aim to achieve increased outputs, notably of staple livestock products and vegetables resulting from long-term sustainable production systems and resources, and much improved access to social services. Credit and focused training will be the principal tools in increasing production and income. For maximum impact, key support mechanisms, particularly supplies of crop and livestock inputs and extension services, need to be strengthened. RPRP recognizes the importance of health and education services and aims to alleviate the financial and technical constraints currently limiting their performance. A substantial training and motivational programme will be included to enhance receptiveness to progress among the target population.

17. **Livestock and natural resource management.** This component will sustainably increase rangeland productivity through four basic actions: (i) the setting up and maintaining about 377 strong beneficiary-led rangeland management and monitoring committees (RMMCs), empowered to plan and manage their natural resources to improve grazing conditions and resilience to harsh climatic conditions, RMMCs will assist in the repair of about 540 wells and in research for ecologically sound rodent control; (ii) enhancing the performance of livestock services, including veterinary and breeding services, with particular support to the emerging private veterinary sector through training and financial assistance for disease control equipment and for the purchase of veterinary medicine; (iii) support to the Agricultural Extension Centre (AEC) to develop its outreach through the rehabilitation of about 78 livestock *soum* (district) offices and the selection and training of a suitable extension officer (the extension service will be the link to the grass-roots level through the formation of about 377 herder field schools); and (iv) scaling up of herds through herder loans and the establishment of a *dzud* emergency fund.

18. **Other economic activities.** This component will focus on poverty alleviation in rural centres and poor herder communities. IGA support will be provided principally through training and an appropriate financial package. PRFI will provide credit and training to start up IGAs. IGA promotion centres will be created, where beneficiaries can access marketing, administrative, fiscal and financial information specific to small enterprises. IGA focal points will act as a link between the beneficiaries, local administration and the PRFI. Vegetable and crop cultivation receive special focus in IGA development. Vegetable cultivation is particularly important due to its potential positive impact on the



nutritional standards both of the cultivators and the herders who purchase the vegetables. RPRP will strengthen crop extension services. It will also promote vegetable cultivation and consumption, and stimulate market demand through a large-scale media campaign.

19. **Rural financial services.** Poverty and gender-focused rural financial services will be key in assisting the target group in asset-building for sustainable development. Support will be provided to enable PRFI to become an effective and viable rural financial service provider. PRFI will encourage savings for additional sustainability. A large-scale savings and credit awareness campaign will precede credit disbursement to the beneficiaries. Under the subsidiary loan agreement, the RPRP will enable PRFI to acquire incremental long-term finance at rates that will allow sufficient margin for institutional development. These resources will enable PRFI to engage in profitable credit operations with the programme target groups and organize the recruitment of a suitable sub-contractor for the enterprise training package. Moreover, PRFI can use subsidiary loan proceeds for staff training, upgrading of the *aimag* offices and the sub-contracting of beneficiary training. The RPRP will support the Netmon LLC and XacBank LLC lending programme, which will include two types of loans, one for herder groups, herder cooperatives, and savings and credit cooperatives, and one for individuals. Loans will be provided for IGAs and cash flow purposes. The Netmon LLC and XacBank LLC will sub-contract the Gobi Regional Economic Growth Initiative ('Gobi Initiative'), a development programme financed by the United States Agency for International Development (USAID), to implement a group formation and training programme for herders. Individuals undertaking IGAs will also benefit from this training. During this seven-year programme, it is expected that 176 groups, 108 cooperatives, and 16 savings and credit cooperatives will be established.

20. **Social development activities.** This component will address three areas simultaneously. First, direct support will be given to women and to the exceptionally vulnerable woman-headed household group, who will be targeted with training and small loans for IGAs. The programme will also support a wide-ranging family planning campaign, embedded within a gender awareness-raising initiative. MWF and its local associations will be contracted, logistical and financial support will be offered and staff trained. Second, the pre-school and primary education system in remote rural areas will be improved. The remaining primary school facilities at *bag* (sub-district) level will be restored, and their teachers trained. The dormitories of *soum* schools will be renovated, and the schools equipped with computer and Internet connections. Third, basic health services in remote locations, particularly among herder communities, will be strengthened. The priority is to improve the quality of health services, especially at the *bag* level, and to increase service accessibility for herder households. *Bag* doctors, nurses and midwives will receive equipment and additional training in health care, some *soum* hospital facilities will be upgraded and a small hospital will be built in *soums* with no hospital. In addition, *soum* doctors will receive incremental management training.

21. **Management.** This component will introduce a beneficiary-responsive management process at the grass-roots level, based largely on the work of RMMCs. RMMC members will come from the *bag khural* (local parliament or elected body) and largely represent the herder community and natural resource users. The RMMCs will develop on the basis of resource maps and development proposals submitted at the *soum* level. On the basis of the *bag* proposals, the *soum* programme committee (SPC) will be established under the leadership of the *soum* governor. SPC will develop the *soum* development proposals and present them to the *aimag* programme steering committee in a timely fashion.

22. PIUs will be set up at the *aimag* level and operate from the governor's office. The main tasks will be: (i) facilitating the work of the implementing technical agencies; and (ii) monitoring and reporting on the implementation. A small programme support unit (PSU) will be established within the Ministry of Food and Agriculture. PSU will mainly be charged with the organization of RPRP's wide support in the fields of training, studies, evaluation and recruitment of technical assistance. In addition, PSU will function as secretariat to the national programme steering committee (NPSC). As

MWF is the primary organization with a mandate to assist women, NPSC and the local steering committees will have an MWF representative.

D. Costs and Financing

23. **Costs.** The total RPRP cost over seven years, inclusive of contingencies, taxes and duties, is estimated at USD 19.1 million. The foreign exchange component is estimated at 22%. Taxes and duties at prevailing rates account for about 7% of total costs. Programme costs have been calculated in Mongolian tugriks (MNT) and are based on prices recorded during the first quarter of 2001. No physical or price contingencies have been applied to the credit revolving fund or to the emergency fund. Physical contingencies of 10% have been applied to all material costs related to infrastructure works. Price contingencies have been levied on all cash costs, except the credit revolving fund and the emergency fund. A constant purchasing power parity exchange rate has been calculated to allow for the difference in foreign and domestic inflation rates. The cost summary by component is presented in Table 1.

TABLE 1: SUMMARY OF PROGRAMME COSTS^a
(USD '000)

Components	Local	Foreign	Total	% of Foreign Exchange	% of Base Costs
Livestock and natural resource management	3 717	1 868	5 585	33	33
Other economic activities	652	532	1 184	45	7
Rural financial services	4 128	28	4 156	1	24
Social development activities	2 639	1 051	3 690	28	22
Management	2 172	250	2 422	10	14
Total base costs	13 308	3 729	17 037	22	100
Physical contingencies	669	197	865	23	5
Price contingencies	843	336	1 179	29	7
Total programme costs	14 820	4 261	19 081	22	112

^a Discrepancies in totals are due to rounding

24. **Financing.** An IFAD loan of USD 14.8 million is proposed, which will finance 77.6% of the total costs, including buildings, technical equipment, staff and beneficiary training, credit, and technical assistance and studies. The Netmon LLC and XacBank LLC will contribute USD 1.6 million or 8.3% of total costs. This contribution will be the subject of a subsidiary loan agreement between the Government and the Netmon LLC and XacBank LLC. A total of USD 3.4 million will be available for incremental credit, including USD 0.75 million to be allocated after programme review (PR). The Government will contribute USD 1.4 million equivalent or 7.3% of total cost in cash. In addition, it will cover costs related to all taxes and duties or cause these to be waived on all items purchased with IFAD resources. These costs are estimated at USD 1.3 million equivalent or 6.8% of total costs. The beneficiary contribution will be exclusively in kind and has not been costed. Details of the financing proposal are presented in Table 2.

TABLE 2: FINANCING PLAN^a
(USD '000)

Components	IFAD		Government		PRFI		Total		Foreign Exchange	Local (Excl. Taxes)	Duties and Taxes
	Amount	%	Amount	%	Amount	%	Amount	%			
Livestock and natural resource management											
Rangeland development	145	84.5	27	15.5	-	-	172	0.9	107	38	27
Well rehabilitation	867	81.8	193	18.2	-	-	1 061	5.6	775	93	193
Fodder and hay making	327	96.4	12	3.6	-	-	339	1.8	111	216	12
Rodent control	44	100.0	-	-	-	-	44	0.2	22	22	-
Veterinary services	969	81.1	225	18.9	-	-	1 195	6.3	295	758	141
Breeding service	419	96.4	16	3.6	-	-	434	2.3	212	207	16
Dzud emergency fund	790	100.0	-	-	-	-	790	4.1	-	790	-
Extension	1 677	71.4	670	28.6	-	-	2 348	12.3	596	1 534	218
Subtotal	5 238	82.1	1 143	17.9	-	-	6 381	33.4	2 117	3 658	607
Other economic activities											
Crop production	465	83.2	93	16.8	-	-	558	2.9	375	90	93
Income generation	654	79.4	169	20.6	-	-	824	4.3	263	485	75
Subtotal	1 119	81.0	263	19.0	-	-	1 382	7.2	638	575	169
Rural financial services	2 575	61.9	-	-	1 582	38.1	4 157	21.8	28	4 129	-
Social development activities											
Women in development	504	82.5	106	17.4	-	-	610	3.2	188	375	47
Education	1 513	77.5	440	22.5	-	-	1 953	10.2	435	1 342	176
Health	1 496	85.1	261	14.9	-	-	1 757	9.2	579	917	261
Subtotal	3 512	81.3	809	18.7	-	-	4 321	22.6	1 203	2 634	485
Management											
Aimag PIUs	988	77.5	286	22.5	-	-	1 275	6.7	89	1 163	22
Soum committees	344	68.3	159	31.6	-	-	503	2.6	73	412	18
PSU	1 030	97.0	33	3.0	-	-	1 063	5.6	114	943	6
Subtotal	2 362	86.9	478	16.8	-	-	2 840	14.9	276	2 518	46
Total Disbursement	14 806	77.6	2 693	14.1	1 582	8.3	19 081	100.0	4 261	13 513	1 307

^a Discrepancies in totals are due to rounding.

E. Procurement, Disbursement, Accounts and Audit

25. **Procurement.** Any contract for the supply of civil works, goods, consultant services and training estimated to cost USD 250 000 equivalent or more shall be awarded following international competitive bidding procedures. Contracts estimated to cost more than USD 30 000 equivalent but less than USD 250 000 equivalent shall be awarded on the basis of local competitive bidding. Contracts estimated to cost more than USD 5 000 equivalent but no more than USD 30 000 equivalent shall be awarded on the basis of local shopping. Contracts estimated to cost USD 5 000 equivalent or less shall be awarded through direct contracting.

26. **Disbursement.** The IFAD loan will be disbursed over seven years. Withdrawals in respect of expenditure for local training and payments under contracts costing less than USD 20 000 equivalent will be made against certified statements of expenditure (SOEs). In order to ensure ready availability of loan proceeds, the Government will open and maintain a special account in USD with an initial deposit of USD 1 000 000. Loans to beneficiaries will be pre-financed with the constitution of revolving funds within each participating bank. For this purpose, these banks will receive an initial deposit equal to the estimated credit amount required for the first year according to the work plan and budget, as agreed by each PIU in conjunction with the banks' head offices. Monthly summaries of credit disbursed and recovered will be maintained on a gender-differentiated basis for periodic review by supervision missions.



27. **Accounts and audit.** Consolidated accounts will be maintained by each PIU. The financial reporting and accounting practices followed under ARPAP are acceptable to IFAD. The accounting sections in PIUs will be adequately staffed and fully capable of handling the accounting requirements of RPRP. The auditing of all accounts will be undertaken for the first two fiscal years by the auditor-general of the borrower and for the succeeding fiscal years by an auditor acceptable to the Fund. Records of all expenditures on items purchased by RPRP will be maintained by PIUs and PSU. The Ministry of Finance and Economy will review programme account withdrawals on the basis of SOEs and provide an opinion on whether such expenditures fully qualify as expenditures eligible for IFAD disbursements. It will also review the management aspects of the credit operation and comment on disbursement, recovery and provisions for bad debts. The Government will furnish certified copies of the audit reports to IFAD and the cooperating institution not later than three months after the end of each financial year.

F. Organization and Management

28. **Beneficiary participation.** A RMMC will be established in each *bag* under the stewardship of the local government to bring together the local population and the service providers. The governor will be expected to be a member of RMMC, but not necessarily its president. RMMC will: (i) bring together members of the community to discuss and prioritize investment options for the area; (ii) disseminate information about RPRP activities to all households; (iii) monitor programme implementation and its impact on the livelihood of the rural population; (iv) oversee loan disbursements, supervision and recovery; and (v) ensure that activities are properly targeted and progress monitored.

29. **Gender considerations.** Each programme proposal has been carefully screened for its potential gender-related impact and, where necessary and feasible, has been tailored to achieve improved gender balance. The social development component will be the linchpin for gender mainstreaming through a special IGA window, a broad-based health awareness campaign and improving access to health and education services. The proposed extension services will conduct a two-pronged approach to technical support and training. As herding is a predominantly male activity, herding-related extension will target men. On the other hand, the popular semi-commercial activity of vegetable and small-crop cultivation will be made accessible to women through appropriate extension. The education component particularly targets boys from herder households, who form the majority of children that either never attend or drop out of school. The health component will support rural households, with an emphasis on reproductive health and family planning. Women's associations (WAs) will facilitate access to income-earning opportunities for poor women with the aim of advancing participants towards the mainstream IGA component.

30. **Rural finance targeting.** The rural financial services component will be implemented by the Netmon LLC and XacBank LLC as PRFI, which will sign a subsidiary loan agreement with the Ministry of Finance and Economy. PRFI will implement the lending programme for individual IGAs and herders. The Netmon LLC and XacBank LLC will implement its own procedures to ensure cost-effective delivery of financial services to the target population. Any reorganization that, in the judgement of the Government and IFAD, affects its capacity to implement the component legally constitutes a reason to suspend the subsidiary loan. A clause to this effect has been included in the subsidiary loan agreement. For the implementation of the group training activities, the Netmon LLC and XacBank LLC will contract the Gobi Initiative. The terms and modalities of this contract will be reviewed by the Fund prior to its execution.

31. **Programme management.** The Ministry of Food and Agriculture, and the Ministry of Finance and Economy will be the agencies with overall responsibility for RPRP at the national level. The prime responsibility for implementation will rest with the governor's office in each province. With assistance from PIU, the governor's office will direct and coordinate the work of all the agencies involved, in



particular the Provincial Department of Agriculture, Trade and Industry, the Department of Education, the Department of Health and the local chapter of MWF. PRFI will implement the rural finance component. Management agreements at central and *aimag* level will specify the role and responsibilities of each implementing agency and provide details on implementation procedures. The subsidiary loan agreement between the Ministry of Finance and Economy and PRFI, the Netmon LLC and XacBank LLC, will outline lending modalities and conditions for the final borrower.

32. The RPRP will be implemented through provincial PIUs, operating from the offices of the provincial governors, under the general guidance of the national and local steering committees. NPSC consists of key officials from the various ministries and institutions involved in programme implementation. PSU, in the Ministry of Food and Agriculture, will act as the NPSC secretariat. Steering committees at *aimag* and *soum* level will be nominated by the local *khurals*, the *bag* RMMCs will be nominated by the *bag khurals*. MWF or its local branches will also be represented on the steering committees. The steering committees will meet quarterly to provide policy guidance, approve plans, review reports and generally support the activities for the RPRP. Women will be fairly represented in PIUs, and future recruitment should bring the ratio of women staff members up to 50%. RPRP resources related to investment and running costs will be allocated to associated agencies, such as PRFI and MWF, on a timely basis in accordance with the approved annual workplan and budget. The programme will start operations in two pilot *soums* in each *aimag*, where the RMMC approach will be introduced, accompanied by technical assistance support to ensure correct application of the approach. These pilot *soums* will serve as training centres for expansion to other *soums*.

33. **Monitoring.** A team approach will be fostered, building on the IFAD approach of working with UNOPS and the management information system of PRFI, with additional input by national consultants. Annual progress reports, containing gender-specific information, will be prepared by the provincial PIU. These reports will focus on the key indicators of: (i) rangeland management and livestock production; (ii) household income or proxy indicators related to increased food self-sufficiency and/or discretionary expenditure; (iii) incomes of women participating in RPRP-supported activities; and (iv) utilization of social infrastructure, notably primary schools and health structures. Physical, environmental, financial, institutional and socio-economic aspects will be addressed in reports for IFAD. Monitoring will be directly linked to the regular reporting system, as an integral part of local management, using local statistical reporting institutions. Reports will focus on the results of the participatory monitoring and evaluation (M&E) techniques applied within the beneficiary households. Finally, a specific credit management and information system will be established.

34. Start-up workshops will be held at national, provincial and *soum* level. In addition, an annual workshop will be held in each *aimag*. The primary purpose of these management workshops will be to review the previous year, exchange lessons learned over the year, and reflect these in the annual workplan and budget. Similarly, annual *soum*-level workshops will focus on gender issues, PRA methods, financial services and issues of common interest. The participation of beneficiary groups, such as RMMCs, will be critical.

35. **Impact assessment.** The main instruments for assessing the impact of programme activities are the baseline survey, the two PRs and the programme completion review. The baseline survey will be undertaken before starting programme activities. PR will have the same function as a mid-term review and will provide the opportunity to adjust the basic project parameters. The PRs will focus on programme management and on the flow of programme funds, the implementation of the rural financial services component, the use of the emergency fund, the effectiveness of RMMCs, and the participatory and gender-sensitive nature of programme planning.



G. Economic Justification

36. **Benefits, beneficiaries and women in development.** Given the range and intensity of the various technical and socio-economic development proposals contained in the RPRP, 90 to 95% of households in the programme area, or about 80 000 households, are likely to benefit directly from RPRP. The experience from the ongoing ARPAP shows that incomes have increased by 1.9 times for herder families and 1.7 times for IGA families. Based on the multisectoral approach of the RPRP, an overall household-income increase of about 2.0 times appears to be an acceptable conservative estimate.

37. It is expected that about 4 100 herders will participate in training related to rangeland management and fodder production. About 18 000 households will receive inputs and training for vegetable production for home consumption. At least 1 500 households are expected to take up horticultural production as an IGA. Through PRFI, about 2 150 herding and haymaking loans will be extended, while 8 400 other investment and seasonal loans will be provided. More than 3 000 jobs will be created by non-land based IGAs. About 15 000 people, especially women, will also benefit from the various training programmes under IGA support and under the social development component. Better education will have a positive impact on the skills of future generations of herders with regard to effective marketing of livestock products. Better access to health services, even in the remotest areas, will strengthen the productive capacity and the quality of social life. WAs will support woman-headed households through training and small loans.

38. **Financial and economic analysis.** The data from three models, including horticultural production, haymaking and livestock development, illustrate the tangible benefits that will be evident at full deployment of programme activities. The average increase in production value will easily triple the original for potato production. Most other IGAs will provide the beneficiaries with an average income increase of about USD 100 to 200. Livestock activities have been estimated to produce an internal rate of return (IRR) of 80% for herd upgrading and 150% for the scaling up of herds. However, the overall impact and benefits are likely to be long-term rather than immediate, and mostly non-quantifiable. For instance, better livestock management practices may lead to a quality increase in livestock products, due to improved genetics, technical services and feeding regimes. The estimation of these long-term benefits is too imprecise for sound economic analysis. Opportunities for IGAs also depend on a great number of factors and vary from case to case. Only the beneficiary and related bank will be able to analyse their specific circumstances and enter, eventually, into contractually binding arrangements. Finally, the RPRP will strongly support basic health and education services, which will produce immense, but non-quantifiable benefits. For these reasons, the usual calculation of economic IRR has been omitted.

H. Risks

39. There is a risk associated with the institutional capacity to implement programme activities in a fully participatory way. To provide the strongest possible assurance of success, support will be provided through technical assistance to train and motivate implementers. This critical PRA training will be provided at programme start-up in two pilot *soums* in each *aimag*. RMMCs will be the focal point, as they represent the linchpin of RPRP action in terms of sustainable rangeland and livestock development. The RPRP implementers will be provided with the physical and financial means to achieve this goal. Finally, there are risks associated with extreme climatic events. The RPRP aims to improve, through risk management, the resilience of the entire community, starting with the herders. Because the benefits of the proposed actions will not be immediately apparent, an additional security mechanism has been provided in the form of an emergency fund. This will alleviate the most severe effects on the poorest herders, to ensure that they do not return in discouragement to the unsustainable herding methods of the past.



I. Environmental Impact

40. The RPRP is situated in a typical Mongolian rangeland area. Although deteriorating rapidly in certain locations, overall vegetative cover is still good and there is relatively limited soil erosion. Fully participatory rangeland management methods will be introduced throughout the area. This management support is expected to contribute significantly to a sustainable exploitation of natural resources. Repair of rangeland wells will improve spatial distribution of grazing loads. The RPRP will also provide funding for an in-depth analysis of rangeland damage possibly caused by rodents. It will further investigate environmentally sound and beneficiary-centred methods of rodent control. Consultations are ongoing with the Global Environment Facility programme to support rangeland management activities in the programme area. Overall, the RPRP promotes activities that favour the sustainable use of natural resources. Therefore, it is unlikely to have significant negative environmental effects and has been classified as Category B.

J. Innovative Features

41. **Empowerment of beneficiaries.** RPRP design was undertaken by a team of national consultants with limited international support. PRA activities were undertaken in three *aimags*, prior to RPRP formulation. This is the first project in Mongolia where PRA activities have preceded project formulation and where logical frame-work-type design techniques were used extensively as part of the process. The target groups' active participation will be secured through further use of PRA methods for the preparation, implementation and monitoring of the *bag* plans. This will ensure effective involvement of all stakeholders in management and allow each beneficiary to choose freely from the proposed activities. The design emphasizes the need for flexible and responsive management by the PIUs, through effective use of PRA methods, to increase their understanding of the livelihood of the target group. A beneficiary-driven monitoring programme will be introduced with yearly written reports on the services received, and the impact achieved.

42. **Grass-roots institution-building.** The RPRP will introduce local rangeland management committees, which will be given ample powers to self-manage resources. The setting-up of the livestock and crop extension service is client-responsive. This service will operate under the national guidelines of the system that has been established with AsDB and Technical Assistance for Commonwealth of Independent States funding. In particular, demonstrations of appropriate technology related to livestock and crop production will contribute to the positive environmental impact. Demonstrations will be carried out on the property of beneficiary households, with special attention given to women.

43. **Support to capacity-building.** In terms of providing credit to beneficiary households, the RPRP will channel all rural credit through a PRFI, operating on a fully commercial basis. Aware of the inherent difficulties of setting up a full banking system, RPRP will enable PRFI to use part of the interest margin to help defray part of the sunk cost involved in setting up the system, and for capacity-building.

PART III - LEGAL INSTRUMENTS AND AUTHORITY

44. A loan agreement between Mongolia and IFAD constitutes the legal instrument for extending the proposed loan to the borrower. A summary of the important supplementary assurances included in the negotiated loan agreement is attached as an annex.

45. Mongolia is empowered under its laws to borrow from IFAD.

46. I am satisfied that the proposed loan will comply with the Agreement Establishing IFAD.



PART IV - RECOMMENDATION

47. I recommend that the Executive Board approve the proposed loan in terms of the following resolution:

RESOLVED: that the Fund shall make a loan to Mongolia in various currencies in an amount equivalent to eleven million and two hundred thousand Special Drawing Rights (SDR 11 200 000) to mature on and prior to 1 September 2042 and to bear a service charge of three fourths of one per cent (0.75%) per annum, and to be upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board in this Report and Recommendation of the President.

Lennart Båge
President



SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES INCLUDED IN THE NEGOTIATED LOAN AGREEMENT

(Negotiations concluded on 27 August 2002)

1. The Government of Mongolia (“the Government”) will transfer available loan funds to each participating rural financial institution to carry out rural financial services in accordance with the annual workplans and financing plans (AWPFPs) and with a subsidiary loan agreement.
2. The Government will make proceeds of the loan available to each PIU and to the Ministry of Food and Agriculture, in accordance with the respective annual workplan and budgets (AWP/Bs) and its customary national procedures for development assistance, to carry out the programme.
3. The Ministry of Finance and Economy and the Ministry of Food and Agriculture will enter into a programme management agreement with each PIU. The Government will transfer loan proceeds and other resources into each programme development account as a grant in accordance with the AWP/Bs and with the programme management agreement.
4. The Government will make counterpart funds available from its own resources to the Ministry of Food and Agriculture during the programme implementation period, equivalent to USD 2.69 million, of which USD 1.3 million will be the Government’s contribution to taxes, and in accordance with its customary national procedures for development assistance. The Government will make budgetary allocations for each fiscal year equal to the counterpart funds called for in the AWP/B for the relevant programme year, and will make such allocations available to each PIU and the PSU semiannually in advance.
5. In conformity with the subsidiary loan agreement, each participating rural financial institution will establish and maintain a revolving fund financed by the loan proceeds and from the participating institution, into which all reflows from credits extended to programme beneficiaries will be deposited. Each institution will use the revolving fund to finance operating, training and group-formation costs as well as incremental loans to the target population. The revolving fund will remain in operation at least until the participating institution has made the last repayment of the subsidiary loan to the Government.
6. The Government will ensure that women are fairly represented in the PIUs and *soum*-programme staff and that future recruitment and replacement will reach a target ratio of 50%.
7. The Government will exempt from taxes all imported goods financed by the loan. To this end, the Minister for Finance and Economy will ensure that a tax exemption law will be issued and become effective, and will circulate the law to the Ministry of Food and Agriculture and IFAD not later than 30 days after the effective date of the programme loan agreement.
8. No disbursements will be made from the loan for the credit reserve fund until the first PR mission has been carried out and a favourable recommendation has been made to that effect.
9. The following are additional conditions precedent to effectiveness of the programme loan agreement:
 - (a) each programme management agreement between the Ministry of Finance and Economy, the Ministry of Food and Agriculture and each PIU on implementation arrangements has been finalized and approved by IFAD;
 - (b) the programme director and each PIU director have been appointed;



ANNEX

- (c) each PIU has been established;
- (d) the PSU has been established;
- (e) the Government has opened the special account;
- (f) each PIU has opened the programme development account;
- (g) the Government has submitted to IFAD the draft annual work plan of each *aimag* for the first year;
- (h) the Government has deposited the initial counterpart funds in the programme development account of each *aimag* according to the respective AWP/B of programme year one;
- (i) the auditor of the programme has been appointed;
- (j) the draft subsidiary loan agreement between the Government and the Netmon LLC and XacBank LLC has been executed in a manner satisfactory to IFAD;
- (k) resources have been made available to the Netmon LLC and XacBank LLC as specified in the AWPFP;
- (l) the programme loan agreement has been signed, and the signature and performance thereof by the Government have been authorized and ratified by all necessary administrative and governmental action; and
- (m) a favourable legal opinion, issued by the Ministry of Justice and Home Affairs, has been delivered by the Government to IFAD.

COUNTRY DATA

MONGOLIA

Land area (km² thousand) 2000 1/	1 567	GNI per capita (USD) 2000 1/	390
Total population (million) 2000 1/	2.4	GNP per capita growth (annual %) 2000 1/	1.7 a/
Population density (people per km²) 2000 1/	2	Inflation, consumer prices (annual %) 2000 1/	7.6 a/
Local currency	Mongolian tugrik (MNT)	Exchange rate: USD 1 =	MNT 1 108
Social Indicators		Economic Indicators	
Population (average annual population growth rate) 1980-99 2/	1.9	GDP (USD million) 2000 1/	975
Crude birth rate (per thousand people) 2000 1/	21 a/	Average annual rate of growth of GDP 2/ 1980-90	5.4
Crude death rate (per thousand people) 2000 1/	6 a/	1990-99	0.7
Infant mortality rate (per thousand live births) 2000 1/	58 a/	Sectoral distribution of GDP 2000 1/	
Life expectancy at birth (years) 2000 1/	67 a/	% agriculture	32 a/
Number of rural poor (million) (approximate) 1/	0.3	% industry	30 a/
Poor as % of total rural population 2/	33	% manufacturing	n.a.
Total labour force (million) 2000 1/	1.2	% services	39 a/
Female labour force as % of total 2000 1/	47	Consumption 2000 1/	
Education		General government final consumption expenditure (as % of GDP)	18 a/
School enrolment, primary (% gross) 2000 1/	88 a/	Household final consumption expenditure, etc. (as % of GDP)	63 a/
Adult illiteracy rate (% age 15 and above) 2000 1/	37	Gross domestic savings (as % of GDP)	21 a/
Nutrition		Balance of Payments (USD million)	
Daily calorie supply per capita, 1997 3/	1 917	Merchandise exports 2000 1/	400
Malnutrition prevalence, height for age (% of children Under 5) 2000 1/	25 a/	Merchandise imports 2000 1/	440
Malnutrition prevalence, weight for age (% of children Under 5) 2000 1/	13 a/	Balance of merchandise trade	-40
Health		Current account balances (USD million)	
Health expenditure, total (as % of GDP) 2000 1/	n.a.	before official transfers 1999 1/	-126
Physicians (per thousand people) 1999 1/	n.a.	after official transfers 1999 1/	-52
Population without access to safe water (%) 1990-98 3/	32	Foreign direct investment, net 1999 1/	30
Population without access to health services (%) 1981-93 3/	0	Government Finance	
Population without access to sanitation (%) 1990-98 3/	n.a.	Overall budget deficit (including grants) (as % of GDP) 1999 1/	-10.4
Agriculture and Food		Total expenditure (% of GDP) 1999 1/	24.1
Food imports (% of merchandise imports) 1999 1/	14 a/	Total external debt (USD million) 1999 1/	891
Fertilizer consumption (hundreds of grams per ha of Arable land) 1998 1/	38	Present value of debt (as % of GNI) 1999 1/	59
Food production index (1989-91=100) 2000 1/	83.8	Total debt service (% of exports of goods and services) 1999 1/	4.8
Cereal yield (kg per ha) 2000 1/	956	Lending interest rate (%) 2000 1/	30.3
Land Use		Deposit interest rate (%) 2000 1/	13.8
Arable land as % of land area 1998 1/	0.8		
Forest area (km ² thousand) 2000 2/	106		
Forest area as % of total land area 2000 2/	6.8		
Irrigated land as % of cropland 1998 1/	6.4		

a/ Data are for years or periods other than those specified.

n.a. = information not available

1/ World Bank, *World Development Indicators* database

2/ World Bank, *World Development Indicators*, 2001

3/ UNDP, *Human Development Report*, 2000



PREVIOUS IFAD FINANCING TO MONGOLIA

Project Name	Initiating Institution	Cooperating Institution	Lending Terms	Board Approval	Loan Effectiveness	Current Closing Date	Loan/Grant Acronym	Currency	Approved Loan/Grant Amount	Disbursement (as % of approved amount)
Arhangai Rural Poverty Alleviation Project	IFAD	UNOPS	HC	17 Apr 96	04 Nov 96	31 Dec 03	G - I - 12 - MN	USD	50	99.9%
Arhangai Rural Poverty Alleviation Project	IFAD	UNOPS	HC	17 Apr 96	04 Nov 96	31 Dec 03	L - I - 412 - MN	SDR	3 450 00	50%

APPENDIX III

LOGICAL FRAMEWORK

Narrative Summary	Verifiable Indicators	Means of Verification	Important Assumptions
Project Goal			Goal to Supergoal
1 Sustainable and equitable poverty reduction in livelihood in insecure <i>aimags</i>	1 Population below official poverty lines reduced by 67% by 2010	1 M&E Statistic reports and	1 Other ongoing programmes continued and coordination achieved
1 Achieve income growth for herders and urban dwellers 2 Increase impact of social services	1 Incidence of preventable disease reduced 2 School drop-outs decreased by 50% and 4 500 IGAs started 3 More than 6 000 jobs sustainably created 4 Average income of 80 000 beneficiaries doubled by project end	1 M&E Statistic reports and	1 Prices and demand elastic 2 No major droughts recorded 3 Support service costs remain in line with outputs
Project Outputs			Outputs to Purpose
1.1 Rangeland management systems strengthened 1.2 Herder resilience to natural calamities improved	1.1.1 377 herder communities organized in RMMCs 1.1.2 377 <i>bag</i> -level rangeland management plans established 1.1.3 4 veterinary associations established 1.1.4 540 wells rehabilitated 1.1.5 Rodent-control research programme executed 1.1.6 1 615 haymaking demonstrations held	1.1.1 PIU reports 1.1.2 PIU reports 1.1.3 PIU reports 1.1.4 PIU reports 1.1.5 PIU reports 1.1.6 PIU reports	1.1.1 Participatory management methods adopted and fully supported 1.1.2 Pump management arrangements successfully implemented
1.2 Support services for livestock development strengthened	1.2.1 4 <i>aimag</i> labs rehabilitated, veterinarians retrained in 486 sessions 1.2.2 16 breeding associations established 32 staff of same trained and annual shows supported 1.2.3 Emergency funds established and allocated	1.2.1 MFA reports 1.2.2 MFA reports 1.2.3 PIU reports	1.2.3 Triggers monitored
2 Livestock and crops extension service established	2.1 3 <i>Aimag</i> centres built and equipped 78 <i>soum</i> offices rehabilitated 78 <i>soum</i> livestock officers trained 377 <i>bag</i> 'herder schools' established Weekly radio transmissions made 2.2 64 <i>soum</i> crops officers trained 464 demonstrations held 18 000 vegetable starter packets distributed Weekly radio transmissions made	2.1 MFA reports 2.2 MFA reports	
3 IGAs supported	3.1 77 IGA shops established 9 720 households supported for self-learning 3.2 1 485 households supported for (semi) commercial vegetable growing 2 070 herder households supported for herd upgrading or scaling up 800 households supported with other IGA training provided for all the above	3.1 PIU reports 3.2 PIU reports	3.2 Technical inputs of good quality, skill trainers identified



INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

APPENDIX III

4.	Poverty and gender-sensitive financial services provided by private banks	4.1 4 Bank <i>aimag</i> offices upgraded 40 <i>soum</i> bank counters established Staff of above trained 4.2 2 150 herding and haymaking loans extended 8 400 other investment and seasonal loans provided for IGAs	4.1 PIU and PRFI reports 4.2 PIU and PRFI reports	5 Appropriate credit channel(s) identified Spreads attractive to banks, given perceived risk
5.	Social services improved	5.1 6 annual campaigns for woman-headed household IGAs 6 annual campaigns on family planning 5.2 3 900 school drop-outs reintegrated 21 <i>bag</i> primary schools upgraded 73 mobile kindergartens provided 24 <i>soum</i> primary school dormitories rehabilitated 5.3 49 <i>feldsher</i> (rural doctors) posts upgraded 2 <i>soum</i> hospitals built 61 <i>soum</i> hospitals rehabilitated 353 baseline health workers retrained	5.1 Mongolian Women's Federation (MWF) reports Reports of the Ministry of Science, Education and Culture (MOSTEC) 5.2 Reports of the Ministry of Health and Social Welfare (MOHSW)	
6	Management institutions established at all levels	6.1 4 <i>aimag</i> PIUs 6.2 77 <i>soum</i> committees	6 PIU reports	
	Activities	Inputs	Means of verification	Important assumptions
1.1.1	Establish RMMCs	1.1.1 Materials (USD 0.1 million)	1.1.1 Project M&E system	1.1. PRA training sustained 1
1.1.2	Prepare resource maps	1.1.2 Materials (USD 0.1 million)	1.1.2 Project M&E system	1.1.2
1.1.3	Train herders	1.1.3 Daily subsistence allowance (DSA) and materials (USD 0.1 million)	1.1.3 Project M&E system	1.1.3
1.1.4	Repair wells	1.1.4 Work and equipment (USD 1.0 million)	1.1.4 Project M&E system	1.1.4
1.1.5	Train attendants	1.1.5 DSA and materials (USD 0.1 million)	1.1.5 Project M&E system	1.1.5
1.1.6	Control rodents	1.1.6 Materials (USD 0.1 million)	1.1.6 Project M&E system	1.1.6
1.1.7	Support winter feeding	1.1.7 Inputs, DSA and materials (USD 0.4 million)	1.1.7 Project M&E system	1.1. Experiments are successful 7
1.2.1	Rehabilitate veterinary support	1.2.1 Building and equipment (USD 0.7 million)	1.2.1 Project M&E system	1.2. Counterpart funds 1 available on time
1.2.2	Train veterinarians	1.2.2 DSA and materials (USD 0.1 million)	1.2.2 Project M&E system	1.2.2
1.2.3	Train herders	1.2.3 DSA and materials (USD 0.1 million)	1.2.3 Project M&E system	1.2.3
1.2.4	Establish Veterinary associations	1.2.4 Materials (USD 0.1 million)	1.2.4 Project M&E system	1.2.4
1.2.5	Establish breeding associations	1.2.5 Materials (USD 0.1 million)	1.2.5 Project M&E system	1.2.5
1.2.6	Train staff of above	1.2.6 DSA and materials (USD 0.1 million)	1.2.6 Project M&E system	1.2.6
1.2.7	Support research and development (R&D)	1.2.7 Work and equipment (USD 0.3 million)	1.2.7 Project M&E system	1.2.7
1.2.8	Establish emergency fund	1.2.8 Annual allocation (USD 0.8 million)	1.2.8 Project M&E system	1.2.8
2.1	Establish/Upgrade extension units	2.1 Building and equipment (USD 0.4 million)	2.1 Project M&E system	2.1 Counterpart funds available on time
2.2	Set up herder field schools	2.2 Building and equipment (USD 0.6 million)	2.2 Project M&E system	2.2
2.3	Train extension staff	2.3 DSA and materials (USD 0.4 million)	2.3 Project M&E system	2.3



INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

APPENDIX III

2.4	Provide extension inputs	2.4	Materials (USD 0.5 million)	2.4	Project M&E system	2.4
3.1	Establish IGA shops	3.1	Building and equipment (USD 0.3 million)	3.1	Project M&E system	3.1
3.2	Train focal points	3.2	DSA and materials (USD 0.1 million)	3.2	Project M&E system	3.2
3.3	Run household self-learning	3.3	DSA and materials (USD 0.2 million)	3.3	Project M&E system	3.3 Trainers paid on <i>soum</i> budgets
3.4	Run IGA management Training	3.4	Wages, materials (USD 0.7 million)	3.4	Project M&E system	3.4
3.5	Run technical skills training	3.5	Wages, materials (USD 0.4 million)	3.5	Project M&E system	3.5 Outside resources assured
3.6	Monitor programme (NDNFE)	3.6	Wages, materials (USD 0.1 million)	3.6	Project M&E system	3.6
4.1	Four <i>aimag</i> bank offices established. About 176 groups, 108 cooperatives and 16 savings and credit cooperatives established.	4.1	Building and equipment (USD 0.1 million)	4.1	Project M&E system	4.1 Sub-loan agreement(s) signed with Financial Institution(s)
4.2	Train staff of above	4.2	DSA and materials (USD 0.1 million)	4.2	Project M&E system	4.2 TA recruited as stipulated
4.3	Establish revolving funds	4.3	Annual allocation (USD 0.9 million)	4.3	Project M&E system	4.3
4.4	Assess, disburse, recover Loans	4.4	Work with beneficiaries (p.m.)	4.4	Project M&E system	4.4
5.1	Train woman-headed households in special IGAs	5.1	Wages, materials for MWF (USD 0.3 million)	5.1	Project M&E system	5.1 Sub-loan agreement signed with MWF
5.2	Run family planning Campaign	5.2	Wages, materials for MWF (USD 0.1 million)	5.2	Project M&E system	5.2
5.3	Prepare and transmit radio messages	5.3	Wages, materials for MWF (USD 0.1 million)	5.3	Project M&E system	5.3
5.4	Support women's associations	5.4	Building and equipment for MWF (USD 0.1 million)	5.4	Project M&E system	5.4
5.5	Support drop-outs	5.5	Wages, materials for MWF (USD 0.3 million)	5.5	Project M&E system	5.5
5.6	Upgrade <i>bag</i> schools	5.6	Building and equipment for MWF (USD 0.2 million)	5.6	Project M&E system	5.6
5.7	Set up mobile <i>bag</i> kindergartens	5.7	Materials (USD 0.3 million)	5.7	Project M&E system	5.7 Teachers paid on <i>soum</i> budgets
5.8	Equip <i>soum</i> schools	5.8	Materials (USD 0.5 million)	5.8	Project M&E system	5.8
5.9	Train teachers	5.9	DSA and materials (USD 0.4 million)	5.9	Project M&E system	5.9
5.10	Train <i>soum</i> doctors	5.10	DSA and materials (USD 0.2 million)	5.10	Project M&E system	5.10
5.11	Equip <i>bag</i> health staff	5.11	Materials (USD 0.2 million)	5.11	Project M&E system	5.11
5.12	Train <i>bag</i> health staff	5.12	DSA and materials (USD 0.2 million)	5.12	Project M&E system	5.12
5.13	Upgrade <i>soum</i> clinics	5.13	Building and equipment (USD 1.1 million)	5.13	Project M&E system	5.13
5.14	Train village health assistants	5.14	DSA and materials (USD 0.1 million)	5.14	Project M&E system	5.14
6.1	Train management staff	6.1	DSA and materials (USD 0.1 million)	6.1	Project M&E system	6.1 Counterpart funds available on time
6.2	Recruit technical assistance	6.2	Contracts (USD 0.4 million)	6.2	Project M&E system	6.2
6.3	Purchase equipment	6.3	Equipment (USD 0.2 million)	6.3	Project M&E system	6.3
6.4	Coordinate R&D efforts	6.4	Study funds (USD 0.4 million)	6.4	Project M&E system	6.4
6.5	Organize management and monitoring workshops/seminars	6.5	Wages, materials (USD 0.2 million)	6.5	Project M&E system	6.5 TA recruited as stipulated
6.6	Pay staff	6.6	Wages and emoluments (USD 0.5 million)	6.6	Project M&E system	6.6
6.7	Incur recurrent costs	6.7	Miscellaneous (USD 2.8 million)	6.7	Project M&E system	6.7 TA recruited as stipulated



PROGRAMME COMPONENTS AND IMPLEMENTATION ARRANGEMENTS

Programme description

1. The goal of the RPRP is to achieve sustainable and equitable poverty eradication for about 80 000 vulnerable rural households living in an environment with increasingly degraded natural resources. This requires increased outputs, notably of staple livestock products and vegetables obtained from long-term sustainable production systems and resources, and improved access to social services. To achieve the livestock production objectives, support to herders' community-based organizations and rehabilitation of rangeland support systems are seen as essential. Credit and focused training will be the principal tools in increasing income and other types of production. For this support to have its full effect, key support mechanisms, notably crop and livestock input supply and extension services need strengthening. To achieve a significant improvement in social service access, especially for herder households, essential services, adequately equipped both in logistic and staffing terms, must be provided. RPRP aims to alleviate the financial and technical constraints that currently limit the performance of the important services of health and education. Of equal importance is instilling an openness to progress among the target population. Therefore, a substantial training and motivational programme will be included. RPRP, which will be implemented over a seven-year period, will have five interrelated components: (i) livestock and natural resource management; (ii) other economic activities; (iii) rural financial services; (iv) social development; and (v) management.

Implementation arrangements

2. **Institutional framework.** The administrative system comprises a multi-tier structure from the central government, to the *aimag*, *soum* and finally *bag* level, the lowest level of formal authority. Herder communities are further organized in *khot ail* groups. *Aimags*, *soums* and *bags* all have governors as representatives of central power. Each level also has a *khural* that oversees the local administrative apparatus. Local officials at each level have considerable autonomy in decision-making and responsibility for ensuring that the planned work is carried out. These officials have wide-ranging power to levy taxes and duties. Theoretically, local taxation should fund a growing proportion of local public resources, but the tax bases are very weak.

Livestock and natural resource management

3. RPRP activities related to livestock and natural resource management are organized in four sub-components: (i) organization of rational rangeland management systems, including rangeland management institutions, water supply rehabilitation, rodent control and winter fodder provision; (ii) improvement of livestock support services, particularly veterinary, breeding and livestock extension services; (iii) scaling up of herds for individual herders; and (vi) the establishment of an emergency fund.

4. The linchpin of rangeland development under the RPRP will be the establishment of the RMMCs. The RPRP builds on pilot experiences of community-based natural resource management achieved with the support of the German Agency for Technical Cooperation (GTZ) in other parts of Mongolia. The strategy will be to reach existing, mostly lineage-based *khot ails* and special interest groups (SIGs) and integrate these into RMMCs. On average, one RMMC for each *bag* will emanate



from the local parliament. In this way, RMMCs will reflect societal structures and represent the needs of all strata of the beneficiary communities.

5. RMMC will establish methods for the sustainable use of grazing resources. To achieve this, staff trained in PRA methods will assist RMMC members in assessing available options. RMMCs first identify the various natural resources present in the *bag* and *soum*. Miscellaneous natural resources may include grazing areas, hay and crop fields, water sources, forests and protected zones, in addition to essential elements of infrastructure such as, roads, schools and hospitals. Their findings are then consolidated in a commonly agreed resource map. On the basis of these resource maps, RMMC members can identify, in a participatory manner, winter camps, and grazing and haymaking zones, and issue possession licenses to the users. RMMC will decide on user applications and allocate appropriate haymaking fields accordingly. However, all decisions on land allocation and use will be made within the legal framework and the land law. As a legal authority, the *bag* governor will approve decisions made by RMMC. The *bag* RMMC will present the proposals to the *soum* parliament, which is the next level of governance. The proposals of the *bag* assembly will be discussed, amended and approved. This document will then be forwarded to the *aimag* authorities, in particular PIU, for consideration and further comments. Another important task of RMMCs will be to dispute resolution, which will be facilitated by their strong participatory nature.

6. Due to a lack of management and maintenance over the past decade, the once numerous range watering points are now in short supply. This has provoked unbalanced stocking of the ranges, leading to excessive grazing around functioning watering points and undergrazing in water-deprived areas. To address this problem, the RPRP will provide the necessary funds to local institutions to repair approximately 540 wells in a timely manner. In agreement with the *soum* governor, the *soum* RMMCs, as the representative institutions of the herders, will select and appoint a well attendant, who will receive a repair kit and training. The attendant may collect water fees to cover remuneration and well maintenance costs.

7. The RPRP will support two research activities. The first will be a research and development (R&D) programme to be carried out in each of the four RPRP *aimags*. This R&D programme will assess the causes and extent of rodent damage to the rangelands and investigate economically viable and environmentally acceptable control measures. The second RPRP research programme aims to update knowledge on production, marketing and use of animal feed in the context of the rapidly changing economic climate of the country. These in-depth investigations will allow the programme to recommend appropriate measures with regard to winter feeding preparations. In this way, the RPRP will assist in hay production for winter-feeding through experiments, demonstrations and appropriate technology training. As part of the IGA sub-component, the RPRP will assist hay producers in accessing credit for the purchase of inputs and haymaking equipment, such as a mower, scythes and sickles. Small enterprises willing to engage in the manufacture or trade of concentrate will also be supported under the IGA sub-component.

8. A limited number of herders will be eligible for a livestock loan under the IGA revolving credit fund of the RPRP. This fund targets herders capable of managing a herd in an appropriate manner but possessing a herd just below the accepted viability threshold. The livestock loan will enable these herders to invest in increasing livestock production. Candidates will need to go through a substantial approval and screening process at *bag*, *soum* and PIU level, with a further financial screening at the bank level. Candidates will also need RMMC certification, confirming that additional livestock will not impair the carrying capacity of the rangeland.

9. The priority of the RPRP's priority is to enhance the resilience of rural households to the harsh, but unavoidable, weather conditions. However, the full effects of the proposed measures can be appreciated only over time. The occurrence of a *dzud* in the early stages of RPRP could obliterate any



positive programme impact, undermining beneficiary commitment to proper management practices. Therefore, an emergency fund of about USD 0.8 million will be established to support herders in the first three to four years of the programme. Reallocating unused portions of the fund to incremental development action, at least two years before completion date, will be part of the terms of reference of the PR.

10. **Technical support service.** The RPRP will enhance the capabilities and outreach of private veterinary services mainly through the following activities: (i) renovation of veterinary laboratories at *aimag* and *soum* level; (ii) technical, financial and management training for veterinarians; and (iii) establishing branches of veterinary associations in all four RPRP *aimags*. These associations will organize training and provide advice on legal and technical issues. They will also support the supply of veterinary medicine.

11. The Mongolian breeding stock has excellent endurance but productivity is comparatively low. There is also the danger of a quality decline in cashmere hair due to inappropriate breeding practices. To safeguard against this, RPRP encourages suitable and interested herders to become specialized breeders and build formal breeding associations. Finance and infrastructure will be provided to support activities such as training in breeding techniques and establishing breeding pools in each *aimag*. Approximately four breeding associations need to be founded per *aimag* to cover the important species adequately.

12. **Extension systems.** The livestock improvements depend on the provision of timely and appropriate advice and support to practitioners. Therefore, the RPRP will strengthen the national Agricultural Extension Centre (AEC), a semi-state extension service with an office in Ulaan Baatar. AEC will be the head organization in the extension office branches in the RPRP area. While Bulgan already has one extension office, the RPRP will create and staff AEC branches in the three remaining *aimags*. In the *soums*, offices will be renovated and staffed with one livestock officer, and a further crop officer in *soums* where crop and vegetable cultivation is an important activity. Appropriate training for the officers and the provision of a motorcycle will enhance the outreach to remotely located herders.

13. A special initiative under RPRP is that herders (and vegetable growers) will be encouraged to meet regularly and form a herder field school (HFS). The RPRP will provide basic office equipment for a HFS office and a meeting room in the *bag* governor building. As it is solely beneficiary-led, HFS will provide herders with the opportunity to identify their problems and work out their own solutions. Herders will educate themselves through experiments and demonstrations, assisted by the *soum* extension agent, with back-up by AEC.

Other economic activities

14. This component will primarily target poor herder and non-herder households, and individuals living in the rural centres. Constituting a smaller group than poor herders, poor families in rural centres tend to have access to even fewer resources and are often as consequence even worse off. Their only advantage is easier, less costly access to services. Access to income is crucial for development in rural centres. The RPRP will assist this group in exploring opportunities for income-generation, either through self-employment or through wage labour.

15. RPRP will support individuals or small groups in the creation of small business ventures. This support will come principally in the form of both training and an appropriate financial package. To achieve this, the RPRP will enter into a subsidiary loan agreement with PRFI, which will provide the financial package for IGAs and the enterprise training and management package. Moreover, the RPRP will establish IGA support centres, where information on marketing, administrative, fiscal and financial



matters specific to small enterprises will be made available. IGA focal points in these centres will facilitate the process for participants by acting as a link between the beneficiary, local administration and PRFI.

16. Vegetable and crop cultivation is considered a particularly significant IGA. Vegetable growing is important because it can greatly improve the nutritional standards not only of the practitioners, but also of the herders who purchase the vegetables. Moreover, it provides practitioners with the opportunity of income-generation and of even restocking of their herd. For the specific purpose of supporting this activity, the extension system will be built up in conjunction with the relevant livestock services. Additionally, Therefore, the RPRP will run a large-scale campaign to promote vegetable cultivation and consumption, and stimulate market demand. Vegetable cultivators will be supported through training and demonstrations by the *soum* extension services. A number of national research institutions will provide technical assistance and high-quality seeds.

17. A second track to income-generation for the rural centre poor will involve supporting small existing enterprises. It is expected that this support will lead to the recruitment of individuals belonging to the RPRP target group.

Rural financial services

18. The RPRP will assist PRFI in becoming an effective and viable rural financial service provider. PRFI will collect savings to ensure additional sustainability. For this purpose, the RPRP will enable the Netmon LLC and XacBank LLC, as the most suitable PRFI candidate, to acquire incremental long-term finance at very favourable rates under the subsidiary loan agreement. The RPRP-supported lending programme of the Netmon LLC and XacBank LLC will include two types of loans: (i) to herder groups, herder cooperatives, and to savings and credit cooperatives; and ii) to individuals. Loans to both types of borrowers will be for IGAs and cash-flow purposes. Rural financial service implementation will be the responsibility of the Netmon LLC and XacBank LLC, and to this effect, it will sign a subsidiary loan agreement acceptable to IFAD, with the Ministry of Economy and Finance.

19. These financial resources will enable the Netmon LLC and XacBank LLC to engage in profitable credit operations with the programme target groups, and organize the recruitment of a suitable sub-contractor for the enterprise training package. Moreover, the Netmon LLC and XacBank LLC will use the subsidiary loan proceeds for staff training, upgrading of the *aimag* offices and the sub-contracting of beneficiary training. However, prior to credit disbursement, savings and credit awareness campaigns will be launched in close coordination with PRFI, PIUs, *soum* and *bag* committees, MWF, the Ministry of Finance and Economy and other concerned bodies. The campaigns will provide households with details of loan availability, procedures, terms and conditions.

20. **Establishment of groups.** The Netmon LLC and XacBank LLC will sub-contract Gobi Initiative to implement a group formation and training programme for herders. Individuals undertaking IGAs will also benefit from this training. Interested herders will be assisted in the setting up of voluntary groups and in defining the by-laws and internal structure of such groups. Groups will receive training in credit management and advice on business management after loan disbursement. Marketing guidance will also be provided for IGAs. After a year of successful operations, groups may wish to establish a cooperative. Netmon (a specialized financial institution) and the Gobi Initiative will support this process and provide advice and training. From the third project year (PY) onwards, the establishment of savings and credit cooperatives will be promoted. Over the seven-year life of the programme, it is expected that 176 groups, 108 cooperatives and 16 savings and credit cooperatives will be established. The cooperatives will act as intermediaries for lending, with Netmon LLC and XacBank LLC acting as their wholesale credit provider. They also will play an important role in local resource mobilization through



the savings services offered at decentralized levels. In this way, RPRP contributes to the institutionalization of sustainable, decentralized rural financial services.

Social development

21. The social development component focuses on three key areas, namely, women in development, education and rural health services.

22. **Women in development.** Proposed actions will target rural women, particularly woman-headed households. The latter is a rapidly growing vulnerable group of the rural poor, whose situation calls for a special approach built on the experiences of women's associations (WAs) in the RPRP area. In addition to training and small loans for IGAs, these households will receive more direct support for home-based activities, with the underlying intention that participants quickly advance to the mainstream IGA sub-component. The programme will also support a wide-ranging family planning campaign, as part of a gender awareness-raising initiative. These campaigns will be run in close collaboration with specialized MOHSW officers. Campaigns will be conducted mainly through mass media, leaflets and radio broadcasts, but meetings will also be held at village level.

23. **Mongolian Women's Federation.** MWF is the oldest and by far the largest support organization for women. It is the apex of the lower-level WAs active in each *aimag*, with representatives at the *soum* level. Their capabilities are even more limited than those of MWF representatives. Logistical and financial support will be offered to these local associations to work towards achieving the goals of the women-in-development component. In each *aimag*, a WA office will be renovated and equipped. Vehicles for much needed mobility will be provided and WA staff will be trained. Due to the significant effort that will be required from WAs to assist women in the RPRP area, the WAs will be represented on the steering committee.

24. **Primary education.** In rural areas, primary education has been greatly cut back and access to it by the children of herder households reduced by the constraints of distance and cost. Moreover, the school drop-out rate for boys, who stay home to help with herding work, has increased since transition and is entirely unacceptable in the long-term development context.

25. To address this, the RPRP will support the renovation of the few remaining primary school facilities in *bags* to prevent these from also being closed through lack of funding. Support will include the repair of buildings and training of teachers. Support for pre-school education is crucial since children who have not attended kindergartens have a markedly stronger tendency not to complete their primary education. Wherever possible, the RPRP will also renovate existing or former kindergartens near targeted *bag* schools. In addition, the RPRP will fund one mobile kindergarten per rural *soum*. These kindergartens will travel with the herders but rotate between communities, providing at least some basic pre-primary education to herders' children.

26. The RPRP will also strengthen educational resources in the *soum* centres. This will mainly involve the repair of dormitories, to allow herders' children to attend school independent of their families' seasonal migration patterns. Moreover, a substantial proportion of teachers at these schools will have the opportunity to acquire additional teaching skills. In the longer term, each *soum* school will be provided with a computer and an Internet connection primarily for educational purposes, but also made available to other users. This would enable schools to set up a small business by selling computer services to the community. The RPRP will tap into resources made available by the Foundation for an Open Society (Soros). This foundation has a large range of educational publications that can be obtained free of charge.



27. **Health.** The RPRP will improve the quality of health services, especially at the *bag* level, and increase service accessibility for herder households. The programme covers the following areas: (i) *feldshers* (*bag* doctors), nurses and midwives will receive additional training in aspects of health relevant to the herding community and will be provided with appropriate equipment; (ii) some *soum* hospital facilities will be upgraded and a small hospital will be built in *soums* with no hospital; (iii) selected *soum* doctors will receive incremental training particularly in basic health provision management; and (iv) health care staff, especially at the *bag* level, will receive appropriate basic health training, delivered by the *soum* and *aimag* doctors.

Programme management

28. PIUs, staffed by personnel recruited for the duration of the RPRP, already exist in Arhangai and Huvsgul but will need to be established in the *aimags* of Bulgan and Hentii. All PIUs will operate from upgraded premises in the provincial governors' offices. *Soum* committees will be established prior to the RPRP start date. Staffing will be kept to the minimum compatible with the efficient discharge of PIU and *soum* committee tasks. These can be summarized as follows: (i) facilitating the work of the implementing technical agencies by providing them on a timely basis with the necessary funding for training, equipment and operating costs; and (ii) monitoring the implementation and reporting on same.

29. PIUs will consist of a director and three sectoral coordinators. The three coordinators are expected to specialize in the areas of rangeland and livestock management, IGAs and social development. In addition, PIUs will have an accountant, assistant accountant, a secretariat and drivers. PIUs will also serve as the secretariat for the *Soum* programme steering committee.

30. SPCs will be established under the immediate leadership of the *soum* governor. These committees will meet *ad hoc* to discuss and approve *soum* development plans, mostly emanating from the *bag* level and RMMCs functioning among the herding communities. The *soum* governor will nominate a permanent officer to act as an RPRP focal point for programme activities at *soum* and *bag* level. This officer will, in particular, assist RMMCs in the production of their *bag* resource maps and development plans but will not influence their decisions. The officer will also be responsible for the organization of *soum*-level management workshops, collating *bag* plans into *soum* plans, and of RPRP monitoring and reporting based on *bag* committee submissions.

31. At central government level, a PSU will be established in the headquarters of the Ministry of Food and Agriculture. It will organize programme-wide support in fields such as training, studies, evaluation and recruitment of technical assistance. In addition, it will serve as the secretariat for NPSC. PSU will be staffed with a facilitator, financial officer, secretary and driver. This staff could be on temporary transfer from the rosters of the Ministry of Food and Agriculture and Ministry of Finance and Economy.

32. Efficient performance by provincial and *soum*-level implementers is essential for the overall success of the RPRP. Ongoing training workshops on a variety of technical and administrative topics will be held throughout the duration of the programme. Regular management and monitoring and evaluation (M&E) workshops will assist programme officials in the tasks of facilitating the work of the technical implementing institutions and of monitoring RPRP activities, while simultaneously promoting best practices for programme implementation among the technical partners. These inter-*aimag* workshops will greatly facilitate transfer of experience in dealing with programme issues among various implementers.

COSTS AND FINANCING

Expenditure Accounts by Financiers (USD '000)

	IFAD		Government		PRFI		Total		For. Exch.	Local (Excl. Taxes)	Duties and Taxes
	Amount	%	Amount	%	Amount	%	Amount	%			
Buildings	2 511	81.3	578	18.7	-	-	3 088	16.2	927	1 584	578
Studies/investigations	766	100.0	-	-	-	-	766	4.0	383	383	-
Vehicles	314	81.3	72	18.7	-	-	386	2.0	290	24	72
Technical equipment	1 750	81.6	394	18.4	-	-	2 144	11.2	1 608	142	394
Demonstration inputs	430	81.3	99	18.7	-	-	529	2.8	397	33	99
Training materials	713	81.3	164	18.7	-	-	877	4.6	657	55	164
Contracted staff	613	100.0	-	-	-	-	613	3.2	-	613	-
Technical assistance	584	100.0	-	-	-	-	584	3.1	-	584	-
Staff training	1 480	100.0	-	-	-	-	1 480	7.8	-	1 480	-
Beneficiary training	593	85.6	-	-	100	14.4	693	3.6	-	693	-
School drop-outs	288	100.0	-	-	-	-	288	1.5	-	288	-
Credit rev. fund	2 521	75.2	-	-	831	24.8	3 352	17.6	-	3 352	-
Dzud emergency fund	790	100.0	-	-	-	-	790	4.1	-	790	-
Incremental government staff	-	-	418	100.0	-	-	418	2.2	-	418	-
Incremental O&M	1 453	60.0	969	40.0	-	-	2 422	12.7	-	2 422	-
Credit operating costs	-	-	-	-	651	100.0	651	3.4	-	651	-
Total	14 806	77.6	2 693	14.1	1 582	8.3	19 081	100.0	4 261	13 513	1 307

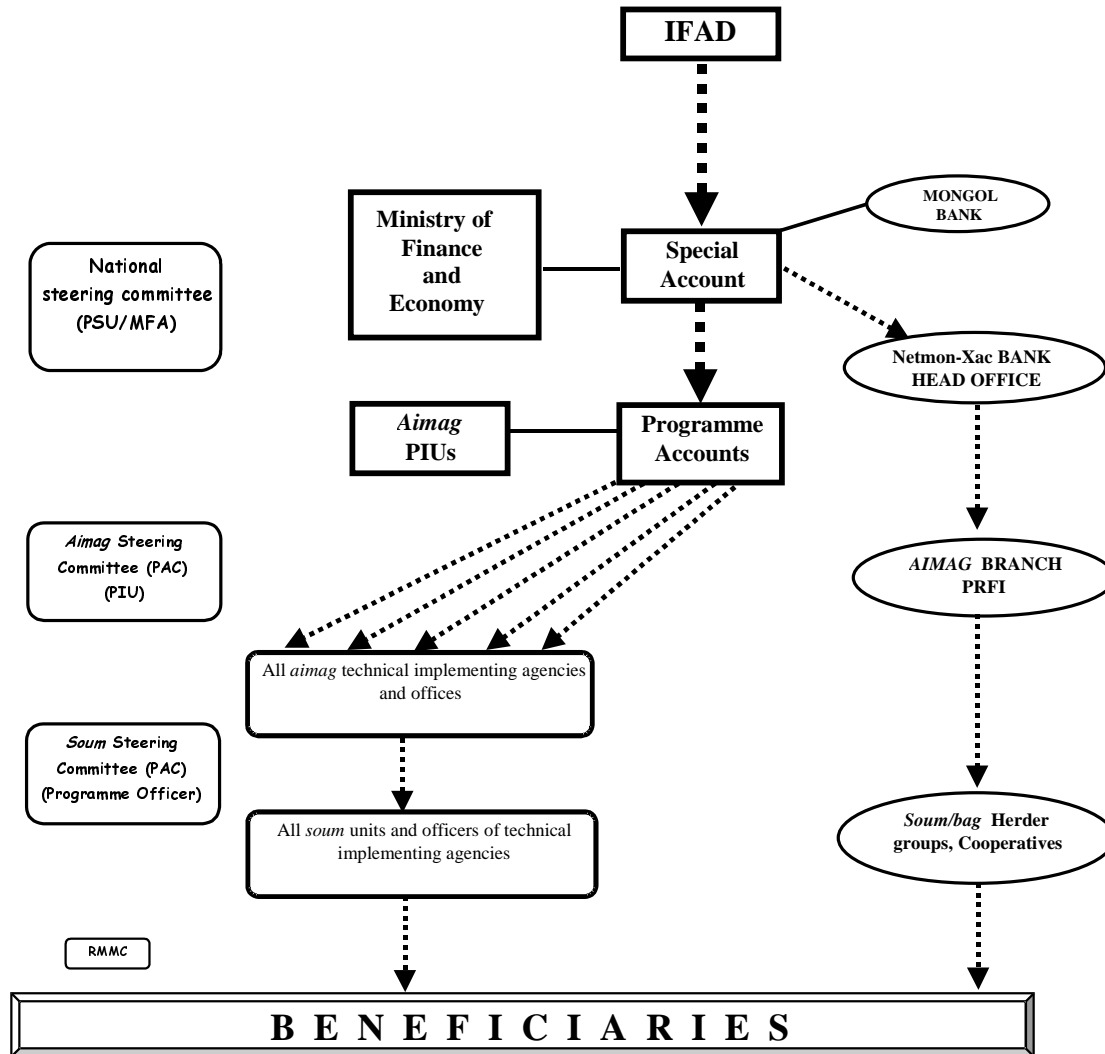


Expenditure Accounts by Components
(USD '000)

	Livestock and Natural Resource Management			Other Economic Activities		Rural Financial Services	Social Development Activities			Management			Total	
	Rangeland Development	Livestock Services	Extension	Dzud Emergency Fund	Crop Production	Income-Generation	WID ¹	Education	Health	Aimag PIUs	Soum Committees	PSU		
Investment costs														
Buildings	-	657	620	-	-	124	3	644	1 041	-	-	-	3088	
Studies/investigations	168	347	-	-	-	32	-	36	-	-	-	182	766	
Vehicles	-	-	89	-	-	-	25	-	81	77	90	24	386	
Technical eqpt.	1 082	165	293	-	-	30	37	8	298	185	32	7	2 144	
Demonstration inputs	15	14	27	-	473	-	-	-	-	-	-	-	529	
Training materials	142	3	137	-	27	249	-	216	-	90	10	-	877	
Contracted staff	-	-	-	-	-	-	-	99	41	-	424	-	613	
Technical assistance	-	-	-	-	-	-	-	-	-	-	-	-	584	
Staff training	-	232	139	-	58	94	-	2	381	299	70	53	1 480	
Beneficiary training	207	-	-	-	-	199	117	108	-	62	-	-	693	
School drop-outs	-	-	-	-	-	-	-	-	288	-	-	-	288	
Credit rev. fund	-	-	-	-	-	-	3 352	-	-	-	-	-	3 352	
Dzud emergency fund	-	-	-	-	-	-	-	-	-	-	-	-	790	
Total investment costs	1 616	1 418	1 306		558	730	3 506	462	1 689	1 757	614	150	996	15 591
Recurrent costs														
Incremental operating costs														
Incremental government staff	-	-	59	-	-	94	-	-	264	-	-	-	-	418
Credit operating costs	-	-	-	-	-	-	651	-	-	-	-	-	-	651
Incremental O&M	-	211	983	-	-	-	-	149	-	661	353	67	2422	
Total recurrent costs	-	211	1 042			94	651	149	264	-	661	353	67	3 490
Total programme costs	1 616	1 629	2 348	790	558	824	4 157	610	1 953	1 757	1 275	503	1 063	19 081
Taxes	232	157	218	-	93	75	-	47	176	261	22	18	6	1 307
Foreign exchange	1 015	507	596	-	375	263	28	188	435	579	89	73	114	4 261

¹ WID: Women in Development

ORGANIZATION AND MANAGEMENT



Impl. Implementing agencies/structures

MFE Ministry of Finance and Economy structures

Supervision (secretariat) Coordination and monitoring bodies

PRFI BANK PRFI establishments and supervisory system

FINANCIAL AND ECONOMIC ANALYSIS

1. The data from various crop and livestock models, including horticultural production, haymaking and the scaling up of livestock illustrate the financial benefits of some activities at full deployment of programme activities. It should be acknowledged that most of the RPRP activities are likely to be long term rather than immediate, and their effects mostly non-quantifiable. For example, a non-herder household that produces vegetables with improved seeds and techniques will increase its income by some 45%, while saving input and labour costs (Table 1). The average increase in the production value of potatoes will easily triple the current production value. The corresponding improved nutritional level of the household and reduced susceptibility to disease are, however, non-quantifiable. Most other IGAs will provide the beneficiaries with an average income increase of between USD 100 to 200. Herder households will improve their livestock production and quality through better feeding and veterinary care. The scaling up of herds with additional breeding animals alone would increase by some 54%. Calculations show that investment in simple haymaking equipment based on horse-drawn mowers would give rise to an income of MNT 330 000 annually. As a consequence, haymaking could become an attractive alternative to herding, particularly for herders possessing few animals.

Table 1: Selected Livestock and Crop Development Models (in MNT)

	Without Programme			With Programme		
	Vegetable production	Livestock upscaling	Haymaking	Vegetable production	Livestock upscaling	Hay-making
Output	40 000	2 440 700	-	60 000	3 761 400	630 000
Input costs	10 168	28 750	-	16 868	60 000	300 000
Income before labour	29 832	2 411 950	-	43 132	3 701 400	330 000

2. In addition to the horticultural and livestock-based activities, there will be a strong emphasis on income-generating opportunities. Opportunities for IGAs are dependent on a great number of factors and vary from case to case. Investment costs and returns cannot be assessed precisely for sound analysis. Only the beneficiary and the bank will be able to agree on the specific circumstances for entering, eventually, into contractually binding arrangements. Furthermore, potential gains in the area of IGAs cannot be attributed to the programme as success depends primarily on the initiative and effort that beneficiaries devote to their enterprises, rather than on outside factors such as training. Therefore, IGAs are generally not taken into account when an economic analysis is conducted on support projects

3. Finally, the RPRP will also strongly support basic health and education services, which produce immense, but often non-quantifiable benefits. For these reasons, the usual calculation of economic IRR has been omitted.