Document:	EB 2016/LOT/P.6	E
Date:	4 August 2016	
Distribution:	Public	
Original:	English	

President’s memorandum

Proposed additional financing to Mongolia for the Project for Market and Pasture Management Development (PMPMD)

Note to Executive Board representatives

Focal points:

Technical questions:

Matteo Marchisio
Country Programme Manager
Asia and the Pacific Division
Tel.: +39 06 5459 2862
e-mail: m.marchisio@ifad.org

Dispatch of documentation:

William Skinner
Chief
Governing Bodies Office
Tel.: +39 06 5459 2974
e-mail: gb_office@ifad.org

For: Approval

Recommendation for approval

The Executive Board is invited to approve the recommendation for proposed additional financing to Mongolia for the Project for Market and Pasture Management Development (PMPMD), as contained in paragraph 26, and the modifications to the financing agreement, as contained in paragraph 22.

Proposed additional financing to Mongolia for the Project for Market and Pasture Management Development (PMPMD)

I. Background

1. The Project for Market and Pasture Management Development (PMPMD) was approved by the Executive Board in May 2011 with a loan of SDR 7.25 million (equivalent to approximately US$11.5 million at the time of approval) on highly concessional terms and a grant of US$1.5 million funded by the Global Environment Facility (GEF). The PMPMD completion date is 30 September 2016 and the financing closing date is 31 March 2017.

2. The present memorandum seeks the approval of the Executive Board for additional financing to PMPMD in the form of a loan in the amount of approximately US$9 million on blended terms. Following the request for additional financing from the Government of Mongolia, the funds will be allocated under the 2016-2018 cycle of the performance-based allocation system (PBAS), supplemented by counterpart financing of approximately US$1.87 million from the Government and US$0.47 million from financial institutions.

3. The proposed additional financing will be used to: (i) expand the geographical areas of the ongoing activities to a total of nine aimags (provinces); (ii) increase the number of target beneficiaries of poor herders and poor rural people by 23,500; (iii) consolidate the status of herder and women's groups formed by the PMPMD for sustainable economic activities and pasture management practices; and (iv) allow for incremental outreach of the activities that have demonstrated the highest impact during implementation.

4. Granting of the additional financing will also extend the project completion and closing dates by five years, to 30 September 2021 and 31 March 2022, respectively.

II. Justification for the additional financing

5. The request complies with all eligibility criteria for additional financing in accordance with President's Bulletin PB/2014/01/Rev.1: (i) PMPMD has never been an actual or potential problem project during the implementation period; (ii) potential for scaling up project activities was identified during the last supervision mission in 2015; (iii) the project disbursement rate is 68 per cent at the last year of project implementation, which is behind the IFAD disbursement profile; however, it has met the criterion that at least 50 per cent of the original financing has been disbursed; (iv) financial management was rated as moderately satisfactory during the last supervision mission, and mitigation measures were identified and are being implemented; and (v) PMPMD complies with all legal covenants, including the timely submission of audit reports and an unqualified audit opinion for the preceding fiscal year.

6. The success of the project is demonstrated by positive feedback from beneficiaries and demand for continuing and expanding project activities. The last supervision

mission in 2015 confirmed the PMPMD's achievement in improving livelihoods through a number of innovations and best practices. These practices include improved pasture management and climate resilience through project-formed pasture herder groups (PHGs) and climate change adaptation investment, and through the Loan Guarantee Fund, which provides rural financing for agricultural and livestock investment. The supervision report of 2015 also highlighted the high potential for scaling up, and recommended that the project's best practices be consolidated through financial and non-financial support and scaled up beyond the original target areas.

III. Description of the project

7. The objective of the project with the additional financing remains the same as that of the original loan: "to reduce poverty and improve livelihoods of poor herder and soum [district] and aimag households in the project area".

8. The PMPMD project will continue to operate until September 2017 in the 15 soums (from the five aimags originally targeted). It will then expand to an additional 18 soums in six aimags, which will be a mix of four new and two originally targeted aimags. By continuing in two of the original target aimags, the additional financing seeks to create a production network hub, creating economies of scale. Targeting will continue to focus on vulnerable and poor households, identified by local administrations.

9. The project consists of two technical components in selected aimags and a component specifically designed to enable nationwide scaling up and project management. No new activities have been added under components 1 and 2, but their descriptions have been reviewed to clarify the existing supported activities. Under component 3, activities for developing business development capacities at the national level, beyond target geographical areas, have been added to ensure scaling up.

Component 1. Market development

10. This component aims to promote poverty reduction and livelihood improvement, focusing on enhancing production in the value chain and on value addition through processing, wholesaling and market access. It will support three scales of the value chain: aimag-, country- and export-oriented. It will entail: (i) business plan development support through technical assistance; (ii) productivity enhancement through seed and breed improvement, pest and disease control, and rehabilitation of workplaces and facilities; (iii) capacity-building for commodity associations to support value chain development; (iv) quality control through enhanced technical guidelines, and safety assurance and testing; (v) creation of a stakeholder forum to present findings from related value chain development projects in Mongolia; and (vi) collaboration with other projects/partners on development of standards for national markets and access to international ones. This component will be implemented through three financing mechanisms of credit lines, a Loan Guarantee Fund and revolving funds.

Component 2. Pasture management and climate change adaptation

11. This component focuses on promoting sustainable management and resilience of the natural resource base of herders. Its key implementation arrangement is through project-formed PHGs, which serve as the basis for joint resource management, ranging from investment planning to monitoring and evaluation of pasture conditions. The project will specifically support: (i) formation and strengthening of PHGs; (ii) development of PHG-based pasture management planning; (iii) climate change adaptation investment, such as emergency reserves of fodder and hay, water source improvement and creation of a risk fund; (iv) investment for income diversification; (v) provision of technical training in

pasture management and risk management; and (vi) participatory rangeland health monitoring.

Component 3. Project management and enabling environment for business development

12. This component aims to enhance the efficacy, reach and pace of agribusiness development, both nationally and in targeted aimags. This will enable scaling up of the two technical components by building business development capacities to meet the demand for Mongolian products. It will support: (i) feasibility studies for value-added production and processing activities; (ii) case studies for policy change and the scaling up of successful national and international value-addition practices; (iii) a network of agribusiness advisory support beyond geographical target areas; and (iv) associations and local governments, so as to co-develop and agree on the agribusiness plans developed through the project.

IV. Project costs and financing

13. The total amount of additional financing is estimated at US$11.40 million and consists of: (i) an IFAD loan of approximately US$9.06 million (about 79.4 per cent) on blended terms; (ii) counterpart financing by the Government of approximately US$1.87 million (16.4 per cent) in the form of tax exemptions, operational costs and cofinancing from the Employment Generation Fund; and (iii) a contribution from financial institutions of approximately US$0.47 million (4.1 per cent) in the form of syndicated loans.

14. Tables 1 and 2 show the distribution of indicative costs by component and by expenditure category.

Table 1
Indicative project costs by component
(Thousands of United States dollars)

	IFAD		*Government*		*Banks*		*Total*	
Component	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*
1. Market development	2 812	63.1	1 171	26.3	473	10.6	4 455	39.1
2. Pasture management and climate change adaptation	4 188	88.6	538	11.4	-	-	4 726	41.4
3. Project management and enabling environment for business development	2 060	92.7	163	7.3	-	-	2 224	19.5
Total project costs	**9 060**	**79.4**	**1 872**	**16.4**	**473**	**4.1**	**11 404**	**100**

Table 2
Indicative project costs by expenditure category and financier
(Thousands of United States dollars)

	IFAD		*Government*		*Banks*		*Total*		*Duties and*
Expenditure category	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*taxes*
1. Civil works	3 710	90.0	412	10.0	-	-	4 122	36.1	412
2. Vehicles, equipment and materials	77	85.0	14	15.0	-	-	90	0.8	14
3. Goods, services and inputs	1 762	78.1	494	21.9	-	-	2 256	19.8	338
4. Training and workshops	935	90.0	104	10.0	-	-	1 039	9.1	104
5. Credit	1 085	60.3	243	13.5	473	26.3	1 800	15.8	-
6. Project grants	162	90.0	18	10.0	-	-	180	1.6	18
7. Staff salaries and allowances	1 100	71.7	435	28.4	-	-	1 535	13.5	26
8. Operations and maintenance	230	60.1	153	39.9	-	-	383	3.4	**38**
Total project costs	**9 060**	**79.4**	**1 872**	**16.4**	**473**	**4.1**	**11 404**	**100.0**	**950**

V. Financial management, procurement and governance

15. Implementation arrangements will remain substantially the same, with the exception of creation of the position of project director, under the responsibility of the Ministry of Food and Agriculture, and of the Loan Guarantee Fund manager, under the Ministry of Finance, to enhance project governance. The project's chief accountant will report to the project director, and will be responsible for financial management of the project.

16. The IFAD financial management assessment rated fiduciary risk as medium. However, the project management unit has quite extensive experience in managing externally financed projects, including those financed by IFAD, with generally good performance shown in budgeting, accounting and reporting, and flow of funds. The project adequately complied with IFAD requirements. The financial management arrangement for additional financing will follow the standards applied in the original PMPMD.

17. The flow-of-funds mechanism is effective and follows IFAD disbursement procedures and related requirements. The current fund flow will apply to the additional financing. Withdrawal applications are submitted in a timely manner, and bank reconciliations are prepared regularly. Three additional project accounts will be opened relating to the additional financing. These accounts include one designated account denominated in United States dollars and two project accounts in the local currency – one for the pasture and market components operated under the responsibility of the project manager, and the other for the Loan Guarantee Fund, operated by the Loan Guarantee Fund Unit under the supervision of the Ministry of Finance. Proceeds of the IFAD financing will not be used to pay taxes.

18. The additional financing provides an opportunity to strengthen financial management in terms of internal control, cash flow planning and quality control of reports. The manual for financing management will be updated to: provide clearer instructions on procedures and reporting lines; request regularization of financial management training and recruitment of additional financial accountants funded by government cofinancing; and specify roles and responsibilities of additional staff, who will harmonize coordination between the funds managed, respectively, by the Ministry of Finance and the Ministry of Food and Agriculture.

19. Procurement of goods, works and consulting services financed by IFAD will be carried out in compliance with IFAD's Project Procurement Guidelines. National procurement procedures, processes and regulations will be applied to the extent that they are consistent with those guidelines.

20. An external audit will be carried out in compliance with the International Standards on Auditing and the IFAD Guidelines on Project Audits to consolidate the financial statements of the loans and the GEF grant. The audit reports shall be submitted to IFAD within six months of the end of the relevant fiscal year.

VI. Proposed amendments to the financing agreement

21. Upon the approval of the Executive Board, the financing agreement will be amended to integrate the additional loan into the existing categories of expenditure. This additional financing will not involve any changes to the project objectives and target group. No new activities – except scaling up support at the national level – or expenditure categories will be created.

22. The original financing agreement signed on 17 June 2011 will be amended and restated to reflect: (i) the name of the implementing agency will be changed from the Ministry of Food, Agriculture and Light Industry to the Ministry of Food and Agriculture; (ii) three additional project accounts will be opened relating to the additional financing – one designated account denominated in United States dollars and two project accounts in the local currency; (iii) the project completion date will

be extended until 30 September 2021 and the closing date to 31 March 2022; (iv) target areas will include the four additional aimags of Dornod, Dundgobi, Sukhbaatar and Uvurkhangay; (v) description of activities for each component of the project will be clarified; (vi) the project implementation structure will be modified by the addition of the positions of project director, appointed by the Ministry of Food and Agriculture to supervise a project manager, and of Loan Guarantee Fund manager; and (vii) functions of the project management unit will be clarified.

VII. Legal instruments and authority

23. An amended and restated financing agreement between Mongolia and IFAD will constitute the legal instrument for extending the proposed financing to the borrower.

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

25. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Lending Policies and Criteria for IFAD financing.

VIII. Recommendation

26. I recommend that the Executive Board approve the proposed financing in terms of the following resolution:

> RESOLVED: that the Fund shall provide a loan on blended terms to Mongolia in an amount equivalent to six million, four hundred and eighty thousand special drawing rights (SDR 6,480,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President