



# Technical Assistance Report

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Project Number: 39229  
October 2006

## Mongolia : Preparing the Agriculture and Rural Development Project (Financed by the Japan Special Fund)

## CURRENCY EQUIVALENTS

(as of 28 August 2006)

Currency Unit	–	togrog (MNT)
MNT1.00	=	\$0.000855
\$1.00	=	MNT1,169

## ABBREVIATIONS

ADB	–	Asian Development Bank
ARDP	–	Agriculture and Rural Development Project
ASDP	–	Agriculture Sector Development Project
CSP	–	country strategy and program
GTZ	–	Deutsche Gesellschaft für Technische Zusammenarbeit
IEE	–	initial environmental examination
MoFA	–	Ministry of Food and Agriculture
PSA	–	poverty and social assessment
PSDP	–	Private Sector Development Project
REDP	–	Regional Economies Development Program
TA	–	technical assistance

## TECHNICAL ASSISTANCE CLASSIFICATION

<b>Targeting Classification</b>	–	General intervention
<b>Sector</b>	–	Agriculture and natural resources
<b>Subsector</b>	–	Agriculture production, agro-processing, and agribusiness
<b>Themes</b>	–	Sustainable economic growth and private sector development
<b>Subthemes</b>	–	Developing rural areas, private sector investments

## NOTE

In this report, "\$" refers to US dollars.

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## I. INTRODUCTION

1. Agriculture and rural development is vital to economic growth and poverty reduction in Mongolia. Almost half of Mongolia's rural population is poor and vulnerable because agricultural incomes are low and unstable and rural income opportunities are limited. Based upon the Government's request, a 2007 loan for the Agriculture and Rural Development Project (ARDP) was programmed in the 2006–2008 country strategy and program (CSP)<sup>1</sup> to address the Government's priority of higher, stable, private-sector-led growth to improve living standards and reduce income disparities. The impact, outcome, outputs, implementation arrangements, cost, financing arrangements, and terms of reference of the project preparatory technical assistance (PPTA), summarized in the project framework (Appendix 1), were finalized during a reconnaissance mission in June 2006 and a TA fact-finding mission from 29 June to 5 July 2006. The design has been guided by the Government's agriculture development strategy and inputs from the private sector including commercial banks with rural operations, agricultural producers, civil society, and external funding agencies.<sup>2</sup>

## II. ISSUES

2. The poor quality of agricultural products and unreliable delivery of supplies restrict commercialization and hinder agriculture and rural development in Mongolia. Natural resource constraints are the primary cause of poor quality and unreliability, but inappropriate production methods also play a part. Production improvements are difficult in Mongolia's harsh environment. However, even when improvements are undertaken, through improved management, infrastructure development, or better support services, they frequently do not deliver products needed by the market or downstream enterprises. As a result, the returns to agriculture remain low and agricultural enterprises are unable to target lucrative markets because they lack dependable supplies of adequate quality. The ADB-funded Agriculture Sector Development Project (ASDP),<sup>3</sup> has laid the foundation for production improvements by building up rural infrastructure and support services, inducing changes in production methods and planning, and changing mindsets of rural producers from centralist approaches to increased business awareness, but these achievements need to be channeled towards greater market orientation.

3. Inadequate links along the supply chain compound production problems. Links between producers, processors, and markets were disrupted during the transition from central planning to a market-based economy. When the supply chain infrastructure collapsed, many previously state-supported enterprises along it ceased operations. Disruptions in the supply chain obstruct the passage of market signals and limit the coordination of production and investment decisions. Moreover, with many small producers scattered over large areas, coordination is particularly difficult. While many previous development programs, including those under the ASDP, have assisted different players along the supply chain, the coordination of this support is an essential next step.

4. Inadequate term finance at affordable rates constrains the development of the production base and the reestablishment of supply links. Previous ADB support through the ASDP increased the availability of rural finance, but high borrowing costs and limited availability of term loans—reflecting limited long-term liquidity in the financial system and also underlying

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<sup>1</sup> ADB. 2005. *Country Strategy and Program (2006-2008): Mongolia*. Manila.

<sup>2</sup> The TA first appeared in *ADB Business Opportunities* on 27 April 2006.

<sup>3</sup> ADB. 2000. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to Mongolia for the Agriculture and Rural Sector Development Project*. Manila.

risks and uncertainties—continue to hold back producers and enterprises. Agriculture production in Mongolia is risky (particularly the unorganized subsistence-oriented production) causing commercial banks to apply high-risk premiums for long-term credit to producers. Furthermore, commercial banks are uncertain of the potential returns to investments in the production base. They therefore cannot assess the financial viability of their lending and are reluctant to finance such investments without substantial collateral. Without affordable term finance, agricultural producers cannot undertake the investments necessary to meet the quality and reliability required by the market. Similarly, agents along the supply chain cannot undertake investments that would reestablish supply chains, and agriculture enterprises cannot modernize and expand operations or invest in the development of their production bases and supply chains. To be effective, an agriculture development project would have to address all three issues—production improvement, supply chain development, and financing.

5. Most stakeholders agree that agricultural production would improve if (i) farmers and agro-enterprises, including those along the supply chain, coordinated their production and investment decisions; and (ii) enterprises at the head of the chain played a more active role in supply development and management. However, due to coordination failure, the major players are unwilling to undertake investments unless others do the same. This reluctance to invest is compounded by high interest rates and limited term finance. If all parties made these investments together, they would each be better off.

6. Providing finance to enterprises at the head of supply chains for investments along the chain could improve coordination and alleviate some of the risk and uncertainty that increase borrowing costs. Lending to enterprises for integrated processing and supply development forces a solution to the coordination failure. Since the onward lending by these enterprises to their suppliers is contingent upon the suppliers meeting the needs of the enterprises, investments and operations along the supply chain automatically become coordinated within the business development model of the large enterprises. At the same time, commercial banks can transfer their uncertainty to agro-enterprises that are better placed to assess risk and manage it by controlling production practices, management, and technology. Borrowing costs, therefore, can be reduced. Enterprises can also access insurance schemes for investments along the supply chain that might be out of reach of individual producers. The applicability of such a project in the Mongolian context will have to be studied carefully. In addition, financing mechanisms will have to be specifically designed to target the coordination failure between agro-enterprises and producers and the risk and uncertainty that makes borrowing costs high.<sup>4</sup> Learning from the lessons of previous initiatives, including ASDP, a project aimed at comprehensive agriculture development will have to be accompanied by market development for unique Mongolian products.

7. If Mongolia tries to compete with its bigger, lower-cost neighbors on the basis of quality and production costs alone, it is bound to lose. The country's traditional production practices and unique geographical characteristics do not lend themselves to the mass production

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<sup>4</sup> The rationale for providing incentives to make such financing acceptable to lending institutions and borrowers also needs to be carefully examined. Lending institutions might need incentives to adopt an unfamiliar lending modality until they develop the capacity to develop and manage financial instruments to meet the demand for term financing. Also agro-enterprises and producers might be reluctant to undertake such borrowing without incentives. They will need to go through an initial period of learning where they improve coordinated production and management methods, set up effective delivery systems, adopt appropriate technology, and establish information systems. It is expected that over the longer term, commercial banks will be able to provide such lending independently as they develop the capacity to manage it. As the operational model is demonstrated, it is expected that other enterprises and producers will be able to adopt the same model without incentives.

methods that help its neighbors to standardize production and reduce costs. However, Mongolia can capitalize on these same unique production qualities because they are considered attractive in niche international markets. Consumers in rich countries are attracted to Mongolia's traditional production practices (e.g., chemical-free production, environment-friendly practices, free-range livestock) and its unique farming culture and lifestyle (e.g. nomadic lifestyle, family production, traditional relationship with animals and nature), which contrast the mass production methods of its neighbors. These qualities provide a basis for a distinct identity or "brand" that differentiates Mongolia's agricultural products from those of other countries and commands an international premium. Agricultural production directed to these niche markets could be a source of growth.

8. A reorientation of production toward a well-targeted brand image could encourage sustainable agriculture and rural development in Mongolia. Brand recognition would provide long-term security and growth to Mongolia's agriculture sector by providing competitive differentiation, fetching premium prices, increasing sales volumes, securing demand, and reducing vulnerability to fluctuations in international commodities prices. The brand will require environmentally sustainable production along the supply chain. Such brand development will require coordinated efforts from a range of agents—the Government, suppliers, farmers, processors, service providers, and exporters. It will require well-planned and executed steps.

### **III. THE TECHNICAL ASSISTANCE**

9. The PPTA will prepare the ARDP to enable at least eight large agriculture enterprises to meet demands of niche markets in rich countries.<sup>5</sup> The ARDP foresees investments in: (i) expansion, modernization, management, and marketing of enterprises at the heads of supply chains and enterprises along the chains, (ii) improved agricultural production practices, (iii) rural infrastructure and support services, and (iv) brand development activities.

#### **A. Impact and Outcome**

10. The PPTA will prepare a project that will establish sustainable agro-enterprises and a sustainable production base. The outcome of the PPTA will be the agreed design of the ARDP.

#### **B. Methodology and Key Activities**

11. The output of the PPTA will be a document that analyzes and describes investments to be supported under the project, implementation arrangements, and associated technical assistance needs. The PPTA will have two components: (i) agriculture development and (ii) brand development. Both components will be based upon international market assessments to identify niche markets for Mongolian agriculture products. For the agriculture development component, the PPTA will conduct a baseline survey of the agribusiness sector, select agro-enterprises capable of meeting the demands of the niche markets, and identify investments to be funded by the project—in the expansion, modernization, improved management, and marketing of agro-enterprises and agriculture producers. In parallel, the Government and stakeholders will agree on investments for rural infrastructure, support services, and resource management to complement project investments.

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<sup>5</sup> Large enterprises in the Mongolian context would be those with annual turnovers of more than \$500,000. But this definition will be refined during PPTA implementation.

12. In association with the design of agriculture development investments, the PPTA will design a brand development campaign for Mongolian agriculture. For this, the PPTA will build upon market assessments to describe niche markets, identify brand characteristics, and develop a product range in line with brand characteristics. The PPTA will determine the scope of the branding campaign, develop an implementation outline, and estimate costs.

### **C. Cost and Financing**

13. The total cost of the PPTA is estimated at \$1.25 million equivalent. The Government has requested ADB to provide \$1 million. The PPTA will be financed on a grant basis by the Japan Special Fund, funded by the Government of Japan. The Government will finance \$250,000 in kind by providing counterpart staff and support services, including surveys and documentation. The detailed cost estimates and a financing plan are in Appendix 3. The Government has been informed that approval of the PPTA does not commit ADB to finance any ensuing project.

### **D. Implementation Arrangements**

14. The PPTA is expected to begin in October 2006 and to be completed by September 2007. The Ministry of Food and Agriculture (MoFA) will be the Executing Agency and it has established a project working group to monitor implementation. MoFA will appoint a coordinator to work with government agencies and other stakeholders. A panel consisting of representatives of the private sector, civil society, and Ministries of Food and Agriculture, Industry and Trade, and Finance will endorse the selection of investment proposals from agro-enterprises.

15. The PPTA will require 38 person-months of international and 42 person-months of national consultant inputs. International consultants for the agriculture development component will be engaged by ADB through single-source selection as described in para. 17.<sup>6</sup> Consultants for the brand development component, the agricultural economist, the rural development specialist, the project economist, the environment specialist, the social development specialist, and consultants with expertise currently unallocated will be engaged as individuals in accordance with ADB's *Guidelines on the Use of Consultants*. Expertise requirements, parallel financing arrangements, terms of reference, and implementation schedules are detailed in Appendix 4.

16. Since ADB staff at the Mongolia Resident Mission will directly supervise PPTA implementation, reporting requirements will be kept to a minimum. ADB consultants working on the agriculture development component will submit (i) an inception report 4 weeks after the commencement of services; (ii) a report that summarizes bankable proposals for the selection panel 16 weeks after the selection of agro-enterprises; (iii) a draft final report that includes the analyses required for project assessment by ADB by week 32 of PPTA implementation; and (iv) a final report on the completion of the TA. The consultants working on the branding campaign will provide an initial report describing niche markets, brand characteristics, and a product range 4 weeks after commencement of services and a final report that describes the scope of the branding campaign, develops an implementation outline, and provides cost estimates 12 weeks

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<sup>6</sup> Single-source selection is appropriate. PPTA tasks are a continuation of previous work. Continuity in the technical approach, experience acquired, and efficiency provides the justification. A team of consultants has been working on a project funded by the Government of the Netherlands and implemented by GTZ. The initial assignment was awarded on a competitive basis. The PPTA is a continuation of their tasks with a minor expansion of scope and scale. The consultants have acquired experience in an area where expertise is limited. Finding a new team to continue their work would be difficult, would involve a loss of efficiency, and would not serve the interests of the project or the client.

after the commencement of services. Consultants will organize training, seminars, and conferences as detailed in Appendix 4.

17. **Partnership with the Private Sector Development Project (PSDP) and Regional Economies Development Program (REDP).** The PSDP is funded by the Government of the Netherlands and implemented by Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) in partnership with the Mongolian Ministry of Industry and Trade. For more than 5 years, the PSDP has assisted enterprises in developing investment plans and management restructuring programs, and attracting commercial funding. The PSDP, supported by international experts, has developed a pool of national experts capable of undertaking company valuation, diagnostics, and investment planning. The REDP, which is funded by German development cooperation through GTZ, aims to provide small and medium-sized enterprises with business development support. As agreed with the Government of the Netherlands and GTZ, the scope of PSDP activities will be expanded to cover comprehensive supply chain development and support to larger enterprises than previously. ADB will fund the inputs of PSDP international experts. They will support PSDP national experts with the preparation of ARDP agriculture development investments, including business development plans for enterprises along the supply chain, which will also receive support through the REDP. Funding from the Government of the Netherlands and German development cooperation through GTZ will be used to cover all administrative expenses and to fund the costs of the PSDP national experts. GTZ expects to be able to mobilize additional technical expertise to meet investment-planning needs of enterprises that are of central importance to the REDP.<sup>7</sup>

#### IV. THE PRESIDENT'S DECISION

18. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$1 million on a grant basis to the Government of Mongolia for preparing the Agriculture and Rural Development Project, and hereby reports this action to the Board.

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<sup>7</sup> A more forward-looking collaboration is foreseen among ADB, the Government of the Netherlands, and GTZ during the implementation of the ARDP. Funding from the Government of the Netherlands and/or GTZ will provide management and technical support to enterprises for the implementation of ARDP-funded investment plans. Enterprises will be eligible to borrow funds through ARDP to pay for part of the costs of this management and technical support and PSDP will provide, as grants, part of the costs.

## DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p><b>Impacts</b></p> <p>Sustainable agro-enterprises and production base</p>	<p>Improved pasture and land management practices adopted</p> <p>Improved quality and reliability of raw material supply</p> <p>Value of agricultural exports at least 10% higher by the end of the project period</p> <p>Higher brand awareness by the end of the project period</p>	<p>Monitoring and evaluation system of MoFA (strengthened with ADB assistance)</p> <p>Community-based monitoring and evaluation</p> <p>Annual reports of the agricultural enterprises</p> <p>Project review missions</p> <p>International and domestic surveys</p> <p>National statistics</p>	<p><b>Assumption</b></p> <ul style="list-style-type: none"> <li>• Agro-enterprises will receive adequate management support and develop their own management capacity over the implementation of the project to allow them to implement their proposals.</li> </ul> <p><b>Risk</b></p> <ul style="list-style-type: none"> <li>• Partnerships between enterprises and enterprises along the supply chain break down due to unforeseen reasons.</li> </ul>
<p><b>Outcome</b></p> <p>Project design that responds to stakeholder needs and fulfills ADB requirements and safeguard policies</p>	<p>Agreement between ADB and the Government of Mongolia on the final project design and loan before December 2007</p>	<p>Negotiated loan agreement between ADB and the Government of Mongolia.</p>	<p><b>Assumption</b></p> <ul style="list-style-type: none"> <li>• An internal ADB review will find the project design to be aligned with ADB strategic objectives.</li> </ul> <p><b>Risks</b></p> <ul style="list-style-type: none"> <li>• MoFA wishes to assume a more central role in project activities than is acceptable to the private sector.</li> <li>• Priorities change if there is a change in Government.</li> </ul>
<p><b>Outputs</b></p> <p><b>Agriculture Development</b></p> <ol style="list-style-type: none"> <li>1. Investments in agro-enterprises identified for funding through the ARDP</li> <li>2. Public investments identified for funding through the project</li> <li>3. Project implementation arrangements designed</li> <li>4. Project monitoring and evaluation system designed</li> </ol>	<p>At least eight investment proposals identified for funding</p> <p>Project design ready for loan fact-finding mission before May 2007</p>	<p>Staff assessment of draft final report of PPTA</p>	<p><b>Assumptions</b></p> <ul style="list-style-type: none"> <li>• A sufficient number of viable agro-enterprises are interested in expanding operations in conjunction with the development of their supply base.</li> <li>• Agro-enterprises and suppliers will reach agreement on partnership arrangements.</li> <li>• Commercial banks and agro-enterprises will agree on funds-flow arrangements that are not considered distortionary to the financial sector.</li> </ul>

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p><b>Brand Development</b> 1. Investments in brand development identified for funding through the ARDP</p> <p><b>Project Management</b> 1. Project Implementation Arrangements designed.</p> <p>2. Project Monitoring and Evaluation System designed.</p>			<p><b>Risks</b></p> <ul style="list-style-type: none"> <li>• Brand awareness is slower and less effective than expected.</li> <li>• The proposals submitted by enterprises might need much more detailed analysis in order to determine their suitability for funding.</li> </ul>
<p><b>Activities with Milestones</b></p> <p><b>Background Studies and Preparation</b></p> <ol style="list-style-type: none"> <li>1. Agribusiness sector analysis.</li> <li>2. International market analysis.</li> <li>3. Identification of niche markets.</li> <li>4. Identification of brand characteristics.</li> <li>5. Identification of product range.</li> <li>6. Selection criteria for enterprises.</li> <li>7. Identification of eligible participating domestic banks and financial institutions.</li> <li>8. Identification of selection panel members.</li> <li>9. Development of detailed implementation arrangements for the PPTA. (To be completed by week 6 of TA implementation.)</li> </ol> <p><b>Agriculture Development</b></p> <p><b>1. Selection of Proposals</b></p> <ol style="list-style-type: none"> <li>1.1. Organize value chain development seminars.</li> <li>1.2. Prepare guidelines and invitations for proposals from agro-enterprises.</li> <li>1.3. Issue invitations. (To be completed by week 7 of TA implementation.)</li> <li>1.4. Organize seminar to introduce the project concept to interested agro-enterprises and participating financial institutions.</li> <li>1.5. Organize panel seminar.</li> <li>1.6. Receive responses to invitations.</li> <li>1.7. Initial screening and short-listing of 15 responses. (To be completed by week 10 of TA implementation)</li> <li>1.8. Evaluate short-listed companies and their rankings.</li> <li>1.9. Select top 10 evaluated companies. (To be completed by week 16 of TA implementation.)</li> </ol> <p><b>2. Development of Bankable Proposals</b></p> <ol style="list-style-type: none"> <li>2.1. Coordination seminar to identify partnerships opportunities and collaboration</li> <li>2.2. Assist with the development of bankable proposals.</li> <li>2.3. Analyses to assess suitability for ADB funding.</li> <li>2.4. Endorsement of proposals by selection panel. (To be completed by week 32 of TA implementation.)</li> </ol>		<p><b>Inputs</b></p> <p><b>ADB:</b></p> <ul style="list-style-type: none"> <li>• PPTA consultants: Team leader (1.5 person-months), agricultural economist (1 person-month), international marketing specialists (2.5 person-months)</li> <li>• Staff consultant: banking specialist (1 person-month for due diligence on banks)</li> <li>• Staff: Team leader, senior sector economist (EAAE), economics officer (MNRM)</li> </ul> <p><b>Government:</b></p> <ul style="list-style-type: none"> <li>• MoFA, MOF, MIT</li> </ul> <p><b>Stakeholders:</b></p> <ul style="list-style-type: none"> <li>• Civil society</li> </ul> <p><b>Development Partners:</b></p> <ul style="list-style-type: none"> <li>• EU, GTZ, UNCTAD, USAID</li> </ul> <p><b>ADB:</b></p> <ul style="list-style-type: none"> <li>• Consultants: Team leader (1 person-month), PSDP team (1 person-month)</li> <li>• Staff: Team leader, senior sector economist (EAAE)</li> </ul> <p><b>Government:</b></p> <ul style="list-style-type: none"> <li>• MoFA, MIT, MOF</li> </ul> <p><b>Stakeholders:</b></p> <ul style="list-style-type: none"> <li>• Enterprises, producers, civil society</li> </ul> <p><b>ADB:</b></p> <ul style="list-style-type: none"> <li>• Consultants: Team leader (2 person-months), PSDP financial analysts (2 person-months), industry</li> </ul>	

<p><b>3. Public Investments</b></p> <p>3.1. Evaluate the adequacy of supporting infrastructure.</p> <p>3.2. Identify public investments to complement proposals of the agro-enterprises and implementation arrangements including public-private partnerships and partnerships with other donor-funded programs.</p> <p>3.3. Analyses of the investments to assess suitability for ADB funding.</p> <p>3.4. Estimate costs of the investments. (To be completed by week 36 of TA implementation.)</p> <p><b>4. Environmental Measures</b></p> <p>4.1. Prepare an initial environmental examination.</p> <p>4.2. Recommend measures to reuse by-products or waste products of the agro-businesses in an environmentally sound manner.</p> <p>4.3. Develop environmental guidelines for the agro-enterprises, and specify an institutional framework for monitoring the environmental impact. (To be completed by week 32 of TA implementation.)</p> <p><b>Brand Development</b></p> <p>1. Determine the scope of the branding campaign.</p> <p>2. Develop an implementation outline and timeframe.</p> <p>3. Estimate costs. (To be completed by week 12 of TA implementation.)</p> <p><b>Project Management</b></p> <p><b>1. Implementation Arrangements</b></p> <p>Design the implementation arrangements including funds flow arrangements, details of partnerships between enterprises and producers, and arrangements for community participation. (To be completed by week 40 of TA implementation.)</p> <p><b>2. Monitoring and Evaluation System</b></p> <p>2.1. Develop a results-based project framework.</p> <p>2.2. Develop a system for civil society monitoring.</p> <p>2.3. Provide means to monitor the contribution of project outcomes to sector outcomes.</p>	<p>experts (4.5 person-months)</p> <ul style="list-style-type: none"> <li>Staff: Team leader, senior sector economist (EAAE)</li> </ul> <p><b>Stakeholders:</b></p> <ul style="list-style-type: none"> <li>Enterprises, producers</li> </ul> <p><b>Inputs</b></p> <p><b>ADB:</b></p> <ul style="list-style-type: none"> <li>Consultants: Agricultural economist (1.5 person-months), rural development specialist (1 person-month)</li> <li>Staff: Team leader, senior sector economist (EAAE)</li> </ul> <p><b>Government:</b></p> <ul style="list-style-type: none"> <li>MoFA, MOF</li> </ul> <p><b>Stakeholders:</b></p> <ul style="list-style-type: none"> <li>Enterprises, producers, industry associations, civil society</li> </ul> <p><b>ADB:</b></p> <ul style="list-style-type: none"> <li>Consultants: Environment specialist (1.5 person-months)</li> </ul> <p><b>Government:</b></p> <ul style="list-style-type: none"> <li>MoFA, MNE</li> </ul> <p><b>Stakeholders:</b></p> <ul style="list-style-type: none"> <li>Enterprises, producers, civil society</li> </ul> <p><b>ADB:</b></p> <ul style="list-style-type: none"> <li>Consultants: Marketing specialists (5 person-months)</li> </ul> <p><b>ADB:</b></p> <ul style="list-style-type: none"> <li>Consultants: Team leader, project economist</li> <li>Staff: Economics officer (MNRM), gender specialist (MNRM)</li> </ul> <p><b>Government:</b></p> <ul style="list-style-type: none"> <li>MoFA, MOF</li> </ul> <p><b>Stakeholders:</b></p> <ul style="list-style-type: none"> <li>Enterprises, commercial banks, producers</li> </ul> <p><b>ADB:</b></p> <ul style="list-style-type: none"> <li>Consultants: Team leader, project economist</li> <li>Staff: Project economist (EAAE)</li> </ul>
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<p>2.4. Develop a system for ensuring that the selected agro-enterprises report on the environment and social sustainability aspects of production according to agreed upon reporting principles and indicators. (To be completed by week 40 of TA implementation.)</p>	<p><b>Government:</b></p> <ul style="list-style-type: none"> <li>• MoFA, MOF</li> </ul> <p><b>Stakeholders:</b></p> <ul style="list-style-type: none"> <li>• Enterprises, commercial banks, producers</li> </ul>
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ADB = Asian Development Bank; ARDP = Agriculture and Rural Development Project; EAEE = Agriculture, Environment and Natural Resources Division; EU = European Union; GTZ = Deutsche Gesellschaft für Technische Zusammenarbeit; MIT = Ministry of Industry and Trade; MNE = Ministry of Nature and Environment; MNRM = Mongolia Resident Mission; MOF = Ministry of Finance; MoFA = Ministry of Food and Agriculture; PPTA = project preparatory technical assistance; PSDP = Private Sector Development Project; TA = technical assistance; UNCTAD = United Nations Conference on Trade and Development; USAID = United States Agency for International Development.

## INITIAL POVERTY AND SOCIAL ANALYSIS

### A. Linkages to the Country Poverty Analysis

<b>Is the sector identified as a national priority in country poverty analysis?</b>	<input checked="" type="checkbox"/> Yes  <input type="checkbox"/> No	<b>Is the sector identified as a national priority in country poverty partnership agreement?</b>	<input checked="" type="checkbox"/> Yes  <input type="checkbox"/> No
<p><b>Contribution of the sector or subsector to reduce poverty in Mongolia:</b> Low agriculture growth will put overall growth at risk. Low, unstable agricultural incomes and limited rural income opportunities are causes of poverty and vulnerability. Agriculture, after mining, remains the most significant sector in Mongolia, accounting for one fifth of gross domestic product (GDP). Agricultural and agro-processed exports amount to about one fourth of foreign exchange earnings. Agriculture is the source of employment for almost half of the total labor force, and the most important source of household income in rural areas. The rural population comprises 43% of Mongolia's 2.5 million people. Poverty in rural areas is estimated to be 43% compared with 30% in urban areas. Subsistence, seminomadic herder households with small herds are recognized as one of the three groups of poor. The natural calamities of 2000–2001 demonstrated the vulnerability of herding to natural shocks. Vulnerability also manifests itself in the form of noticeable seasonal consumption variations that reflect agricultural production cycles. Agriculture and rural development, therefore, is crucial in broadening and sustaining Mongolia's growth, and providing opportunities for the many poor Mongolians who have not yet benefited from the transition to a market economy.</p>			

### B. Poverty Analysis

#### Targeting Classification: General Intervention

<p>The poverty analysis will focus on an assessment of income poverty from the perspective of (i) subsistence, semi-nomadic herder households and low-income agricultural producers, and (ii) low-income laborers in agro-enterprises.</p> <p><b>Subsistence, Semi-nomadic Herder Households and Low-income Agricultural Producers.</b> While the private sector has grown in urban areas, the rural economic base is still weak. Efficiency of the livestock sector—output per herder—has declined during the transition period to a near subsistence level, short of both cash and credit. Due to a lack of market access, herders are forced to sell their products cheaply. Barter exchange of raw materials for basic consumer goods has created unbalanced trade relations between the city and countryside, resulting in low income and poor quality of life in rural areas. Access to credit is particularly difficult for herders and agricultural producers. Herders and the rural poor are considered risky because their income is seasonal and their only collateral is livestock, which is vulnerable to disease and weather conditions. In most cases, the primary sources of credit are local traders, shops, or kiosks. Herders migrate within their bag or soum and further if extreme weather demands it. Compounding this problem is the absence of local markets and high cost of fuel in remote aimags.</p> <p><b>Low-income Laborers in Agro-enterprises.</b> Another disadvantaged group in the sector are low-income laborers in agro-enterprises. Currently, agro-enterprises are not attractive for well-educated laborers due to their unreliable seasonal operation. Enterprises often engage less educated people and pay low salaries. Only 0.8 % of professionals work in the agricultural sector although the sector accounts for 46.6% of total employment.</p> <p><b>Poverty Reduction Strategy of the Project.</b> The impact of the project will be to induce growth of the sector by supporting the selected agro-enterprises, improving reliability and quality of agricultural raw material supply, and developing a brand image for Mongolian agricultural products. A key indicator to assess project impacts would be income poverty in project areas. The project will address agricultural production improvement, supply chain development, and financing. These broad-based growth enhancing measures at strategic points along the supply chain will be complemented with proactive measures that address (i) income poverty of subsistence herders, low-income agricultural producers, and low-income laborers; and (ii) vulnerability of agricultural workers, especially female workers. Partnerships will be fostered with programs working with herders with few animals, women producers at or below the poverty threshold, indigenous people, and agricultural producers and agro-enterprises with large numbers of poor employees to maximize the participation of these groups in project activities.</p> <p>A detailed poverty and social assessment (PSA) during the implementation of the project preparatory technical assistance (PPTA) will provide an in-depth picture of rural poverty, particularly among indigenous groups and specific needs and interests of rural people. In addition, the PSA will identify the capacity of existing civic groups and recommend how these groups could be mobilized during project implementation. The PSA will also recommend specific project design features to reduce poverty. Special attention will be given to address the needs of indigenous people and ensure that these groups benefit from the project.</p>	
<b>Is there a stakeholder analysis?</b>	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
<p>The poverty analysis also provides the basis for a detailed stakeholder analysis during PPTA implementation. Stakeholder beneficiaries are: (i) subsistence, semi-nomadic herder households with small herds; (ii) agricultural producers without established market access; (iii) owners of and laborers in agricultural enterprises; (iv) service providers and traders; and possibly (v) migrants in urban centers and on their peripheries.</p>	

**Is there a participation strategy?**  Yes  No

The PPTA will develop a participation strategy. The PPTA will aim to maximize civil society participation in project implementation and monitoring and the participation of nongovernment organizations (NGOs) for the improvement of the production base. A panel of representatives from the private sector, farming community, NGOs, and the Government will select agro-enterprises to be included in the scope of the project. The PPTA will develop the detailed terms of reference for the participatory features of the implementation arrangements and particularly for civil society participation in project monitoring. The NGO and Civil Society Center will be requested to provide expertise to design the participation strategy and the participatory features of the implementation arrangements.

#### D. Gender Development

The TA is expected to generate employment for women in agro-enterprises and improve their access to producer and marketing organizations. Ongoing projects funded by ADB and development partners will assist in these activities. Efforts will be made to establish partnerships with projects that are building the capacity of women to develop business plans, set up a product development, manage businesses, improve marketing, and gain better access to credit. The PPTA will develop a detailed gender action plan.

**Has an output been prepared?**  Yes  No

An output will be prepared by the end of the PPTA.

#### E. Social Safeguards and Other Social Risks

Item	Significant/ Not Significant/ None	Strategy to Address Issues	Plan Required
<b>Resettlement</b>	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None		<input type="checkbox"/> Full <input type="checkbox"/> Short <input checked="" type="checkbox"/> None
<b>Affordability</b>	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None		<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
<b>Labor</b>	<input type="checkbox"/> Significant <input checked="" type="checkbox"/> Not significant <input type="checkbox"/> None	The development of agro-enterprises is expected to increase employment opportunities. If enterprises propose investments that cause workers to lose their jobs, they will be required to propose mitigating measures. All enterprises will be required to comply with national labor legislation.	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
<b>Indigenous Peoples</b>	<input type="checkbox"/> Significant <input checked="" type="checkbox"/> Not significant <input type="checkbox"/> None	Target areas are expected to contain a diverse range of minorities but none are considered specifically disadvantaged because of their ethnic affiliations. The PPTA will prepare a strategy to account for specific issues facing indigenous people.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
<b>Other Risks and/or Vulnerabilities</b>	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None		<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

**COST ESTIMATES AND FINANCING PLAN**  
(\$'000)

<b>Item</b>	<b>Total Cost</b>
<b>A. Asian Development Bank Financing<sup>a</sup></b>	
1. Consultants	
a. Remuneration and Per Diem	
i. International Consultants	
Brand Development	182.7
Agriculture Development	564.0
ii. National Consultants	22.4
b. International and Local Travel	72.0
c. Reports and Communications	18.0
2. Training, Seminars, and Conferences	30.0
3. Surveys	20.0
4. Miscellaneous Administration and Support Costs	3.8
5. Contingencies	87.1
<b>Subtotal (A)</b>	<b>1,000.0</b>
<b>B. Government Financing</b>	
1. Remuneration and Per Diem of Counterpart Staff	135.0
2. Transport	35.0
3. Surveys and Documents	55.0
4. Contingencies	25.0
<b>Subtotal (B)</b>	<b>250.0</b>
<b>Total</b>	<b>1,250.0</b>

<sup>a</sup> Financed by the Japan Special Fund funded by the Government of Japan.  
Source: Asian Development Bank estimates.

## OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

1. Table A4.1 summarizes the composition of the consultant team. Table A4.2 provides the implementation schedule.

**Table A4.1: Composition of Consultant Team**

Consultant Expertise	Person-Months	
	International	National
International Marketing Specialists (3) <sup>a</sup>	7.50	
Agribusiness Specialist (team leader)	9.00	
Project Management Specialist	4.25	
Agricultural Economist <sup>a</sup>	1.50	
Rural Development Specialist <sup>a</sup>	1.00	
Project Economist <sup>a</sup>	3.00	
Livestock Specialist	0.75	
Dairy Specialist	0.50	
Meat Industry Specialist	0.75	
Wool/Cashmere Specialist	0.75	
Leather/Hides/Skins Specialist	0.75	
Logistics Specialist	1.75	
Environment Specialist <sup>a</sup>	1.50	
Financial Analysts (4) <sup>b</sup>		34.00
Social Development Specialist <sup>a</sup>		2.00
Unallocated <sup>a</sup>	5.00	6.00
<b>Totals:</b>	<b>38.00</b>	<b>42.00</b>

<sup>a</sup> To be engaged as individuals.

<sup>b</sup> 34 person months of national consultant inputs to be provided as parallel financing by German development cooperation through GTZ and/or the Government of the Netherlands.

Source: Asian Development Bank estimates.

2. **International Marketing Specialists** (3 experts, 7.5 person-months total). The consultants will do the following:

- (i) Analyze international markets and help identify niche markets for Mongolian agriculture products with specific characteristics.
- (ii) Describe demand characteristics in identified niche markets for Mongolian products.
- (iii) Identify brand characteristics that will meet the demands of the niche markets.
- (iv) Identify a product range for agriculture products that will fit into the brand characteristics.
- (v) Work with the Agriculture Development team to determine selection criteria for enterprises.
- (vi) Design a branding campaign to be potentially funded through the Agriculture and Rural Development Project (ARDP).
  - (a) Determine the scope.
  - (b) Develop an implementation outline and timeframe.
  - (c) Estimate costs.

3. **Agribusiness Specialist** (team leader, 9 person-months). The consultant will do the following:

- (i) Assume overall responsibility for project preparatory technical assistance (PPTA) outputs for the Agriculture Development component.

- (ii) With the Asian Development Bank (ADB) project team member, identify eligible participating domestic banks.
  - (iii) With the ADB team, the Government, and development partners, develop criteria for selection panel members and help select members.
  - (iv) With the project management specialist, develop detailed implementation arrangements for the PPTA.
  - (v) With the international marketing specialists, ADB project team members, and the Government, develop selection criteria for enterprises.
  - (vi) Work with the Private Sector Development Project (PSDP) team on the following:
    - (a) Develop formats for initial applications.
    - (b) Develop the evaluation format.
    - (c) Develop bankable proposal formats that meet ADB financial analysis requirements.
    - (d) Develop criteria for initial screening.
    - (e) Organize value chain development seminars and act as a resource person for seminars.
    - (f) Prepare guidelines and issue invitations for initial proposals from agro-enterprises.
    - (g) Organize an introductory seminar for agro-enterprises and banks.
    - (h) Screen and short-list initial responses.
    - (i) Evaluate and rank short-listed companies.
    - (j) Support the panel in selecting top ten evaluated companies.
    - (k) Organize the coordination seminar and act as a resource person for the seminar.
    - (l) Assist selected enterprises to develop bankable proposals (with support from the international industry experts).
    - (m) Act as a resource person for training provided through the preparation of bankable proposals.
  - (vii) Work with the project economist to provide analyses of proposals that will be required by ADB.
  - (viii) Work with the agricultural economist and rural development specialist to identify public investments to complement the support for supply chain development and the implementation arrangements for undertaking these investments.
  - (ix) Identify specialist needs for assessing potential production suppliers to agro-enterprises to meet brand requirements (e.g., natural resource management issues of sustainable farm production).
4. **Project Management Specialist** (4.25 person-months). The consultant will do the following:
- (i) Assist the team leader in all areas as required to ensure a successful outcome of the project and the achievement of objectives. This will include preparation of workplans and scheduling of work, monitoring achievement of workplan targets, corrective actions to make up shortfalls or delays, budgets and budget revisions, participation as necessary in selection processes for companies.
  - (ii) Assist in the selection and training of national consultants and national specialists for evaluation, technical assistance, and development of bankable proposals.
  - (iii) Participate in the training of the project consultants to ensure that the project concept, required outputs, methodology, documentation, and timetables are effectively met.
  - (iv) Substitute for and/or assist the team leader as required to cover periods of absence and/or high workload.

- (v) Develop procedures and controls to ensure full and effective use of national consultant time for evaluation and bankable proposal development.
- (vi) Monitor national consultant inputs to ensure maximization of the quality of analysis, reports, and recommendations produced.
- (vii) Oversee the evaluation process to ensure that key aspects of evaluations, particularly company capacity to implement plans and the practicality of the outline plans are fully and effectively identified.
- (viii) Train as necessary company management and staff to ensure that the evaluation process is fully and properly understood and the required information is available to consultants to enable the correct conclusions are drawn.
- (ix) Directly discuss as necessary with the national consultants and the company management of up to 15 companies to ensure that the evaluation delivers a fair result and a positive outcome for both project and company.
- (x) Train as necessary the staff of up to 10 companies in the requirements for the creation of successful bankable proposals, in particular that financial information provided is based on realistic and practical assessments of likely costs. Provide background training in costing and budgeting of plans as required.
- (xi) Assist with international specialist inputs to ensure both that inputs remain focused on the needs of the client companies and that the relationships between national and international consultants are effective and add to the overall outputs.
- (xii) Monitor and improve the project coordination, logistics and use of resources to ensure that tight deadlines can be met and progress is properly and effectively recorded.
- (xiii) Assess outputs and apply corrective actions as required to ensure objectives are met.
- (xiv) Work with the project economist to develop a monitoring and evaluation system and implementation arrangements for the ARDP.

5. **Agricultural Economist** (1.5 person-months); **Rural Development Specialist** (1 person-month). The consultants will do the following:

- (i) Review underlying assumptions from available sector analyses, discuss with stakeholders and formally report on findings of viability and suggestions for change.
- (ii) Assess sector performance and assist the team leader in reviewing market assessments for targeted enterprises and the medium term market prospects for targeted enterprises.
- (iii) Review similar ADB projects for lessons.
- (iv) Evaluate the adequacy of public infrastructure for proposals to be supported through the project.
- (v) Identify public investments to complement proposals of the agro-enterprises.
- (vi) Develop implementation arrangements including public-private partnerships and partnerships with other donor-funded programs.
- (vii) Analyze the investments to assess suitability for ADB funding.
- (viii) Estimate costs of the investments.
- (ix) Review existing data on farmer incomes in the project area, in conjunction with rural sociologist conduct the baseline data review and survey to understand likely trends that this project would have on farmer incomes and welfare.
- (x) Prepare, in collaboration with the national social development specialist, the project social impact assessment including a distribution analysis of the costs and benefits of the project.

6. **Project Economist** (3 person-months). The consultant will do the following:

- (i) Design the implementation arrangements for the ARDP including details of partnerships between enterprises and suppliers, and community participation.
- (ii) Design the flow of funds and identify ADB disbursement procedures to be used for the ARDP taking full account of the legal arrangements for contracts and financing.
- (iii) Assess the capabilities of the borrowers, EAs, and IAs to manage funds and disbursement. If needed, develop a program to address any problem areas.
- (iv) Develop a results-based project framework and recommend measures to put in place the necessary indicators and develop capacity for its implementation.
- (v) Recommend actions to monitor the contribution of project outcomes to sector outcomes.
- (vi) Develop a community-based monitoring system.
- (vii) Analyze the potential for the application of sustainability reporting guidelines of the Global Reporting Initiative or other similar internationally recognized guidelines by the selected agro-enterprises.
- (viii) Recommend options for appropriate sustainability reporting by the enterprises.
- (ix) Together with the environment specialist, develop a detailed system for sustainability reporting that can be followed by the enterprises and incorporated into the project framework.
- (x) Identify capacity building needs for the implementation of such reporting systems.
- (xi) Provide the overall economic analysis of ARDP investments to meet ADB requirements.
- (xii) Produce COSTAB-based project costs and a financing plan in the format required by ADB.

7. **Industry Specialists** (Livestock, Dairy, Meat, Wool/Cashmere, Leather/Hides/Skins; Logistics, 5.25 person-months). The consultants will do the following:

- (i) Participate as resource persons in seminars and training as required.
- (ii) Provide inputs into background studies and selection of proposals.
- (iii) Provide technical inputs into the development of bankable proposals and assume responsibility for the preparation of proposals in the respective industries of expertise.
- (iv) Provide inputs into the identification of public investments.

8. **Environment Specialist** (1.5 person-months). The consultant will do the following:

- (i) Prepare an initial environmental examination (IEE).
- (ii) Recommend measures to reuse by-products or waste products of the agro-businesses in an environmentally sound manner and for environmentally sound disposal of agro-processing wastes that cannot be reused or recycled.
- (iii) Develop environmental guidelines for the agro-enterprises, and specify an institutional framework for monitoring the environmental impact.
- (iv) Work with the Project Economist to develop a detailed system of sustainability reporting that can be followed by the enterprises and incorporated into the project framework.

9. **Social Development Specialist** (2 person-months). The consultant will do the following:

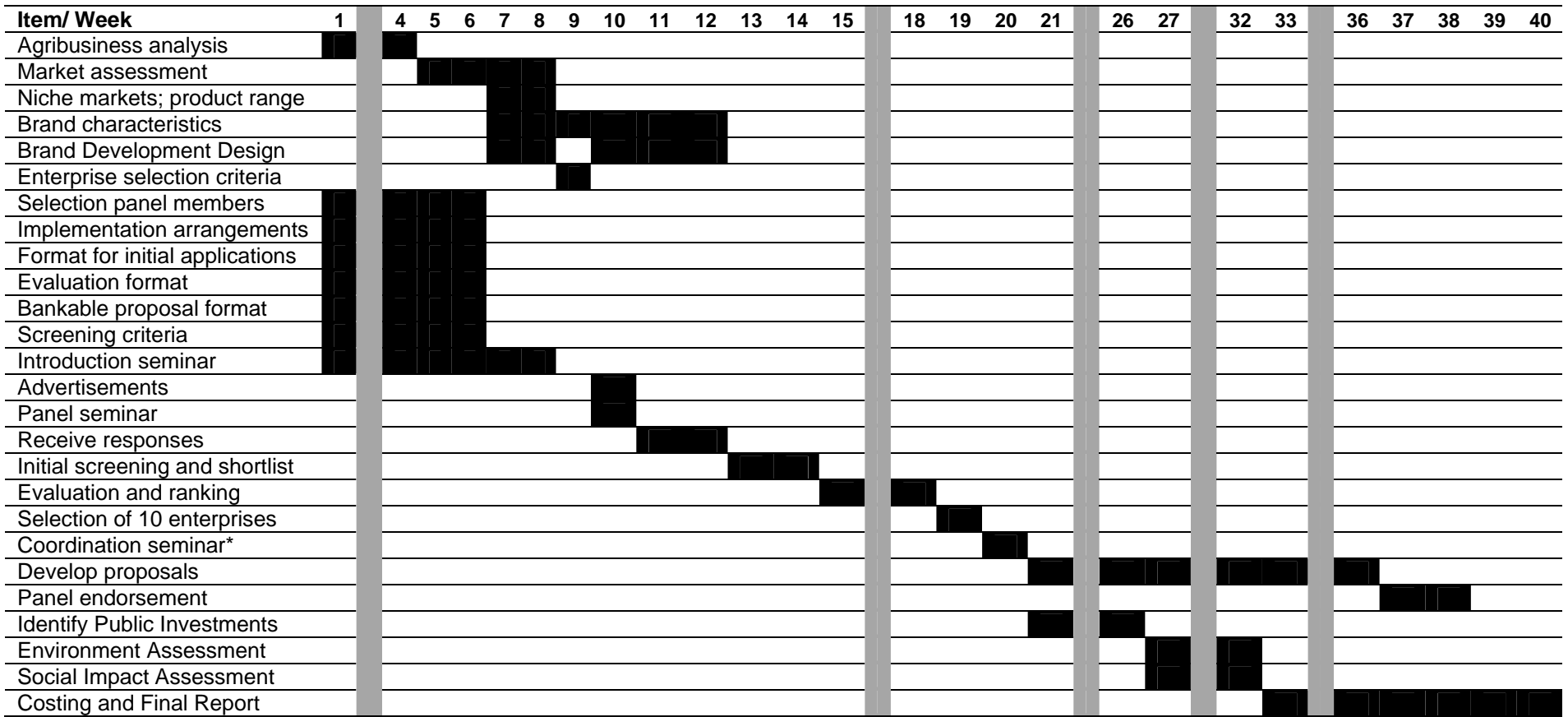
- (i) Undertake a poverty and social assessment (PSA) in accordance with ADB guidelines on poverty and social analysis and policies for integrating poverty impact assessment in the economic analysis of projects, and national policies on poverty reduction.

- (ii) Analyze poverty incidence in each of the targeted areas, including the projected growth and incidence of poverty, and describe the nature and characteristics of poverty in the project areas.
- (iii) Review the impact of the proposed project on the poor. Identify all possible options to enhance the participation of beneficiaries, particularly poor and women in identification, planning, design, and implementation phases of the project.
- (iv) Consult with civil society at mid-term and at the end of the PPTA to inform them of the project and seek input and suggestions for project design features.
- (v) Establish contact with community-based organizations and nongovernment organizations (NGOs) in the targeted areas and explore options to mobilize them in the project implementation.
- (vi) Review the impact on indigenous and/or ethnic minority groups in the project areas and prepare a draft Indigenous People Plan (IPP). Update the IPP as required after the locations and specifics of the agro-enterprises have been identified.
- (vii) Prepare a summary of poverty reduction and social development strategy including links to the country poverty analysis, stakeholder participation process, gender and development, and potential issues regarding labor, indigenous people, and other risks and vulnerabilities.

10. **Financial Analysts** (4, 34 person-months [To be funded by German development cooperation through Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) and the Government of the Netherlands.]). The consultants will do the following:

- (i) Assist the team leader in accomplishing the following:
  - (a) Develop formats for initial applications.
  - (b) Develop the evaluation format.
  - (c) Develop bankable proposal formats to meet also ADB financial analysis requirements.
  - (d) Develop criteria for initial screening.
  - (e) Organize value chain development seminars and act as a resource person for seminars.
  - (f) Prepare guidelines and issue invitations for initial proposals from agro-enterprises.
  - (g) Organize an introductory seminar for agro-enterprises and banks.
  - (h) Screen and short-list initial responses.
  - (i) Evaluate and rank short-listed companies.
  - (j) Support the panel in selecting top ten evaluated companies.
  - (k) Organize the coordination seminar and act as a resource person for the seminar.
  - (l) Assist selected enterprises to develop bankable proposals (with support from the international industry experts) with a full financial analysis as required by ADB.
  - (m) Act as a resource person for training provided through the preparation of bankable proposals.
- (ii) Work with the project economist to provide analyses of proposals that will be required by ADB.

**Table A4.2 Implementation Schedule**



Legend:  Activity  
 Continuous weeks