# Mongolia: Agriculture and Rural Development Project - Additional Financing

<table>
<thead>
<tr>
<th>Project Name</th>
<th>Agriculture and Rural Development Project - Additional Financing</th>
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<tbody>
<tr>
<td>Project Number</td>
<td>39229-033</td>
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<td>Country</td>
<td>Mongolia</td>
</tr>
<tr>
<td>Project Status</td>
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<td>Project Type / Modality of Assistance</td>
<td>Loan, Technical Assistance</td>
</tr>
<tr>
<td>Source of Funding / Amount</td>
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<tr>
<td>Loan 3287-MON: Agriculture and Rural Development Project - Additional Financing</td>
<td>Ordinary capital resources, US$ 35.00 million</td>
</tr>
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<td>Loan 3288-MON: Agriculture and Rural Development Project - Additional Financing</td>
<td>concessional ordinary capital resources lending / Asian Development Fund, US$ 15.00 million</td>
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<tr>
<td>TA 8960-MON: Supporting Agriculture Value Chain</td>
<td></td>
</tr>
<tr>
<td>Japan Fund for Poverty Reduction</td>
<td>Effective gender mainstreaming, US$ 2.00 million</td>
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</table>

## Strategic Agendas
- Environmentally sustainable growth
- Inclusive economic growth

## Drivers of Change
- Governance and capacity development
- Knowledge solutions
- Partnerships
- Private sector development

## Sector / Subsector
- Agriculture, natural resources and rural development - Agro-industry, marketing, and trade - Livestock

## Gender Equity and Mainstreaming
- Effective gender mainstreaming

## Description
The additional financing will primarily help Mongolia increase the value addition on its rich yet underutilized livestock and other agricultural resources through (i) value chain investments (VCIs) by agro-enterprises and cooperatives, (ii) capacity strengthening of primary producers and processors, (iii) improvement of marketing and technical capacity of agro-enterprises and cooperatives, and (iv) development of Mongolian product brand(s). As a result, the additional financing is expected to generate employment opportunities and help diversify the Mongolian economy, which has been driven by the mining sector.
**Project Rationale and Linkage to Country/Regional Strategy**

The Asian Development Bank (ADB) approved on 29 September 2008 a grant of $14.72 million from its Asian Development Fund (ADF) for the Agriculture and Rural Development Project (current project). The revised closing date of the current project grant is 31 December 2015. The current project was supported by associated TA of $2 million from the Japan Special Fund for agricultural marketing and brand development. The current project aims at a reliable supply of premium-value agricultural products to niche markets by selected enterprises. It comprises two outputs:

(i) value chains able to deliver unique, premium-value products to niche markets; and (ii) fully defined process and institutional arrangements for collaborative brand development and management developed and demonstrated.

Agriculture sector is the backbone of the Mongolian economy and considered a key for diversifying the economy, which relies too heavily on the mining sector. In 2013, Mongolian agricultural primary products accounted for 20.1% and processed products for about 11.1% of Mongolia's gross domestic product. They are also the second largest export products after mineral products, accounting for 9.2% of total exports by value in 2013. However, the agriculture sector is mostly concentrated on primary production and forgoing significant value addition in agriculture because of limited processing capacity. The bottleneck is lack of long-term financing, which has significantly hindered Mongolian agro-enterprises from making long-term investments to improve productivity. As a result, Mongolia exports a significant portion of its agricultural products (e.g., wool, cashmere, and animal skins) after primary processing while it imports a substantial volume of processed or final products (e.g., dairy products).

It is crucial for Mongolia to capitalize on the rich yet untapped resources of the agriculture sector, which employed 30% of the labor force in 2013. Long-term investments to improve their productivity. As a result, Mongolia exports a significant portion of its agricultural products (e.g., wool, cashmere, and animal skins) after primary processing while it imports a substantial volume of processed or final products (e.g., dairy products). It is crucial for Mongolia to capitalize on the rich yet untapped resources of the agriculture sector, which employed 30% of the labor force in 2013.

**Implementation Progress**

(i) Output delivery. The current project made progress toward the outcome and largely accomplished outputs 1 and 2. Against the outcome, the current project enabled 12 project participating enterprises (PPEs) to start selling some of their products to international and domestic premium-value buyers, but establishment of business partnerships will take longer. Against output 1, the current project financed 12 PPEs to develop their respective value chains to deliver higher-value products. Those PPEs have realized noticeable improvements in product quality and productivity, and significant job creation directly at the enterprises and indirectly at the producers of raw materials. The current project also provided (a) equipment and supplies to livestock testing centers and veterinary service centers of six selected provinces; and (b) machinery, equipment, and agricultural inputs, as well as training to selected agricultural cooperatives to improve the quality and production of raw materials. Against output 2, the current project developed a framework for brand development, applied it to animal fiber and its products, and developed a Mongolian brand certification mark, Mongolian Noble Fiber. The certification mark has been registered at the intellectual property offices of Mongolia and 33 selected countries.

(ii) Implementation progress. Implementation progress is satisfactory: 98.9% of disbursements and 98.9% of contract awards against 93.6% of elapsed time as of 15 July 2015.

(iii) Safeguard compliance. Safeguard requirements have been met satisfactorily. Environmental and social safeguard screening procedures have been well established under the current project and applied to every subproject.

(iv) Management of risks. The report and recommendation of the President for the current project identified (a) inadequate capacity of the enterprises to implement the investment plan, (b) delays in procurement processes, (c) delivery delays by contractors, and (d) misuse of funds by enterprises. Project implementation support provided by the project management unit (PMU) successfully managed most of the risks by assisting the PPEs in ensuring that VCI subloan proposals are feasible and by closely monitoring the PPEs' implementation of the proposals.

(v) Outcome performance. The performance of the current project is rated on track.

Additional financing eligibility criteria met. ADB’s due diligence confirmed that the additional financing meets the eligibility criteria and standards. The additional financing is in line with the Government of Mongolia’s action program for 2012-2016, which places the highest priority on employment generation and diversification of the mining-sector-driven economy. The additional financing will fully support ADB’s intermediate credit strategy, 2014-2016 for Mongolia, which restores the core sector status of the agriculture, natural resources, and rural development sector; and highlights private sector development for employment generation and diversification of the mining-sector-driven economy. The additional financing is listed as a firm project for 2015 in ADB’s country operations business plan, 2014-2016 for Mongolia. ADB is currently preparing two loan projects for Mongolia: Regional Upgrades of Sanitary and Phytosanitary Measures for Trade Facilitation, which will complement the project by assisting agricultural and food product trade; and Supporting the Credit Guarantee System for Economic Diversification and Employment Project, which will support the financing sector’s lending to small and medium-sized enterprises (SMEs).

Additional financing priority met. The additional financing has a high degree of readiness since implementation capacity is well advanced and additional financing has a high degree of readiness since implementation capacity is well advanced and additional financing is on track. The additional financing will assist the government in scaling up and modifying the scope of the current project that is performing well. In response to a request from the government, the project will (i) include additional subsectors, (ii) adopt a regular onlending modality, and (iii) expand the range of subloans by lowering the minimum amount. The project will focus not only on export-oriented subsectors, but also on subsectors oriented for domestic markets, smaller-scale agro-enterprises, and cooperatives. Consequently, the focus of project impact and outcome was changed from the promotion of partnerships with premium-value buyers to economic diversification through higher value addition to agricultural resources.

Changes in project scope. The additional financing will assist the government in scaling up and modifying the scope of the current project that is performing well. In response to a request from the government, the project will (i) include additional subsectors, (ii) adopt a regular onlending modality, and (iii) expand the range of subloans by lowering the minimum amount. The project will focus not only on export-oriented subsectors, but also on subsectors oriented for domestic markets, smaller-scale agro-enterprises, and cooperatives. Consequently, the focus of project impact and outcome was changed from the promotion of partnerships with premium-value buyers to economic diversification through higher value addition to agricultural resources.

**Project Outcome**

**Description of Outcome**

Value addition to agricultural resources enhanced by PPEs

**Progress Toward Outcome**

Activities are ongoing

**Implementation Progress**

**Description of Project Outputs**

VCl's financed

Production capacity of herders and farmers improved

Enterprise marketing and technical capacity improved

Mongolian product brand(s) developed

**Status of Implementation Progress (Outputs, Activities, and Issues)**

As of 31 December 2018, twenty-seven (27) VCI subloans have been approved by ADB. As of 31 December 2018, due diligence for twenty-seven (27) VCI subprojects have been approved by ADB. Ongoing.

**Geographical Location**

Nation-wide

**Safeguard Categories**
**Environment**

**Involuntary Resettlement**

**Indigenous Peoples**

### Summary of Environmental and Social Aspects

#### Environmental Aspects

Based on the preliminary assessments, the project is classified as category B for environment. Safeguard documents, including an environment assessment and review framework, will be prepared following ADB's Safeguard Policy Statement (2009).

#### Involuntary Resettlement

#### Indigenous Peoples

### Stakeholder Communication, Participation, and Consultation

#### During Project Design

#### During Project Implementation

### Business Opportunities

#### Consulting Services

47. The project is expected to require 382 person-months of seven national consultant inputs for project implementation. The executing agency will continue to engage six consultants selected through individual consultant selection method under the current project and recruit another consultant all to be financed by ADB following ADB's Guidelines on the Use of Consultants (2013, as amended from time to time). The extension of those six consultants should be justified as their tasks represent a natural continuation of previous work carried out under the current project, and the built capacity of those consultants is needed for continuation of the smooth project implementation without lapse.

#### Procurement

All procurement financed from ADB loan will be carried out in accordance with ADB's Procurement Guidelines (2015, as amended from time to time). Contracts for civil works valued at $100,000 or less than $5,000,000; and contracts for goods and related services valued at $100,000 or less than $2,000,000 will be procured through national competitive bidding procedures (NCB). The NCB will be undertaken in accordance with standard government procedures subject to modifications agreed with ADB. Contract packages for civil works and goods valued less than $100,000 will be awarded through shopping procedure. Relevant sections of ADB's Anticorruption Policy (1998, as amended to date) will be included in all procurement documents and contracts). Any tendered equipment packages will include the necessary technical support to ensure proper installation, testing, commissioning, and training of operational staff as part of the related contracts. The selection and engagement of contractors for works, goods, and/or consulting services to be financed by ADB loan will be subject to ADB approval.

A procurement plan indicating the thresholds and review procedures; contract packages for goods, works, and consulting services; and NCB procedures are provided in section B below. Any necessary modifications or clarifications to the recipient procurement procedures will be documented in the procurement plan. The relevant sections of ADB's Anticorruption Policy (1998, as amended to date) will be included in all documents and contracts relating to procurement. Before the start of any procurement, ADB and the executing and implementing agencies will review GOM's public procurement laws to ensure consistency with ADB’s Procurement Guidelines. For procurement of goods and works by the PPEs, where applicable, will be encouraged to follow ADB’s Procurement Guidelines (2015, as amended from time to time); and undertake procurement in accordance with established commercial practices acceptable to the government and ADB. To be acceptable, the PPEs will (i) demonstrate that procedures are appropriate in the circumstances; (ii) ensure that goods and services financed using project funds are purchased with consideration to economy and efficiency at a reasonable price, given time of delivery, quality, and efficiency; and (iii) ensure that goods and services to be financed by project funds are procured from ADB member countries. The PPEs will be encouraged to procure goods through international and/or national competitive bidding and shopping, where applicable in the interest of economy and efficiency. The PMU will oversee procurement by the PPEs. In case of noncompliance, the government will have the right to recall the VCI subloan from the violating PPE. The PMU staff gained adequate experience in carrying out procurement activities undertaken under the current project.

### Responsible ADB Officer

Jan Hinrichs

### Responsible ADB Department

East Asia Department

### Responsible ADB Division

Environment, Natural Resources & Agriculture Division, EARD

### Executing Agencies

Ministry of Finance (formerly Ministry of Finance and Economy)
ANUDARI@MOF.PMIS.GOV.MN
S.Danzangiin Gudamj 5/1, Zasgiin Gazriin
II Bii, Uulambaatar 15160 Mongolia

### Timetable

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<th>Concept Clearance</th>
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### Loan 3287-MON

#### Milestones

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#### Financing Plan

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<th>Others</th>
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#### Loan Utilization

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Loan 3288-MON

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**TA 8960-MON**

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Project Page https://www.adb.org/projects/39229-033/main
Request for Information http://www.adb.org/forms/request-information-form?subject=39229-033
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