



# Grant Assistance Report

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Project Number: 37697  
February 2007

## Proposed Grant Assistance Mongolia: Community-Driven Development for Urban Poor in Ger Areas (Financed by the Japan Fund for Poverty Reduction)

Asian Development Bank

## CURRENCY EQUIVALENTS

(as of 1 January 2007)

Currency Unit	–	togrog (MNT)
MNT1.00	=	\$0.000858
\$1.00	=	MNT1,165

## ABBREVIATIONS

ADB	–	Asian Development Bank
CBO	–	community-based organization
CDD	–	community-driven development
DED	–	German Development Service (Deutscher Entwicklungsdienst)
JFPR	–	Japan Fund for Poverty Reduction
JSDF	–	Japan Social Development Fund
M&E	–	monitoring and evaluation
MCUD	–	Ministry of Construction and Urban Development
NCB	–	national competitive bidding
NGO	–	nongovernment organization
O&M	–	operation and maintenance
PIU	–	project implementation unit
PM	–	project manager
PMU	–	project management unit
PSC	–	project steering committee
PUSO	–	public urban service organization
SOE	–	statement of expenditures
TWC	–	technical working committee
UDSP	–	Urban Development Sector Project

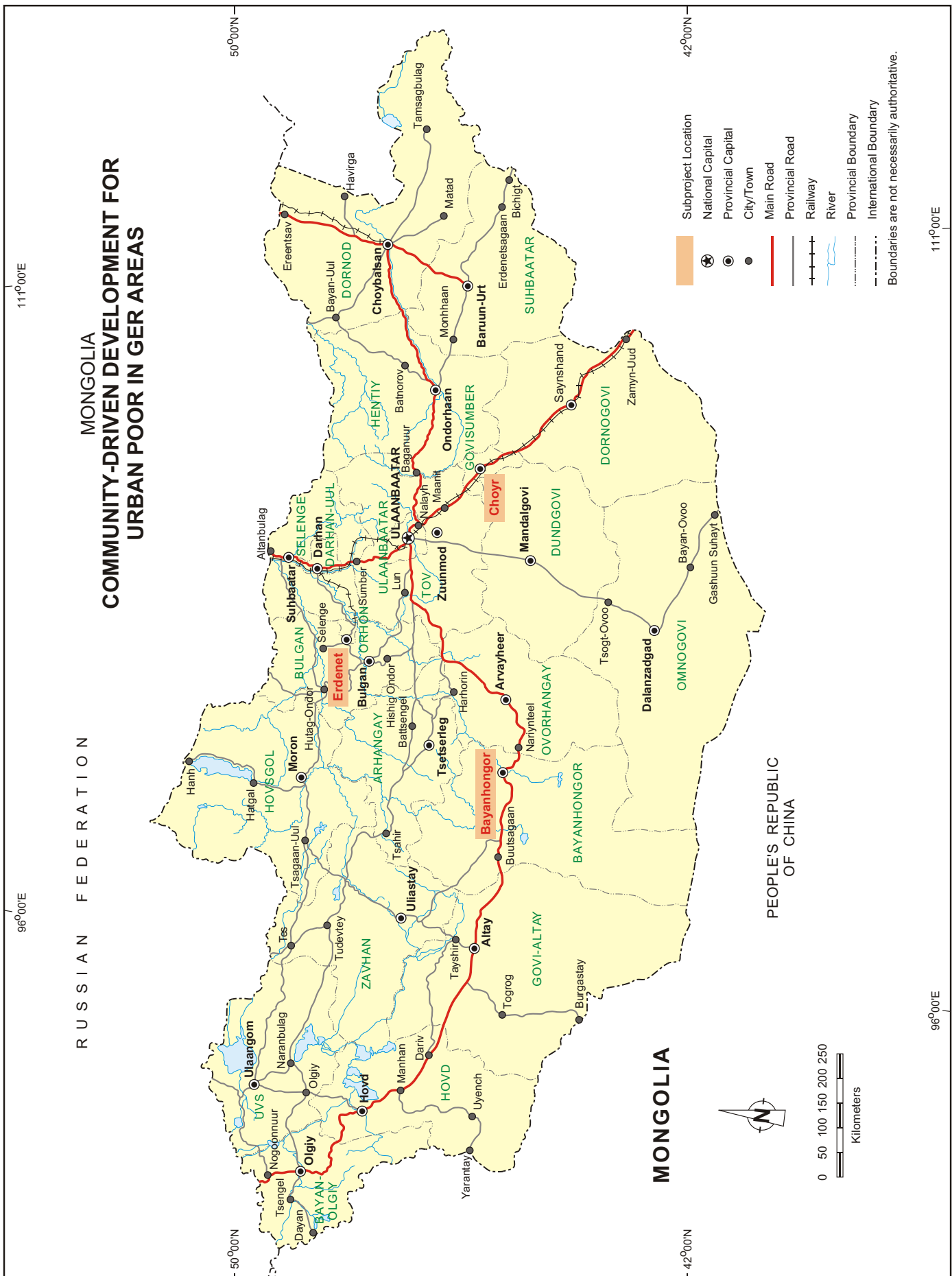
## NOTES

- (i) The fiscal year of the Government of Mongolia ends on 31 December.
- (ii) In this report, "\$" refers to US dollars.

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# MONGOLIA

## COMMUNITY-DRIVEN DEVELOPMENT FOR URBAN POOR IN GER AREAS



- Subproject Location
  - National Capital
  - Provincial Capital
  - City/Town
  - Main Road
  - Provincial Road
  - Railway
  - River
  - Provincial Boundary
  - International Boundary
- Boundaries are not necessarily authoritative.



111°00'E

96°00'E

50°00'N

42°00'N

111°00'E

96°00'E

## JAPAN FUND FOR POVERTY REDUCTION (JFPR)

### JFPR Grant Proposal

<b>I. Basic Data</b>	
<b>Name of Proposed Activity</b>	Community-Driven Development for Urban Poor in Ger Areas
<b>Country</b>	Mongolia
<b>Grant Amount Requested</b>	\$1,500,000
<b>Project Duration</b>	4 years
<b>Regional Grant</b>	<input type="radio"/> Yes / <input checked="" type="radio"/> No
<b>Grant Type</b>	<input checked="" type="radio"/> Project / <input type="radio"/> Capacity building

### II. Grant Development Objective(s) and Expected Key Performance Indicators

<p><b>Grant Development Objectives:</b></p> <p>The objective is to empower local communities through increased participation in local governance and involvement in the design, implementation, and management of community demand-driven infrastructure and income-generating projects in selected ger areas.</p>
<p><b>Expected Key Performance Indicators :</b></p> <p>The following should have been accomplished by the end of the JFPR Project:</p> <ul style="list-style-type: none"> <li>(i) establishment of 15 local community-based organizations (CBOs) and increase in their capacity to work with local authorities in monitoring and overseeing basic service delivery;</li> <li>(ii) plans for 165 community demand-driven infrastructure and small-scale enterprises prepared in participatory and technically satisfactory manner;</li> <li>(iii) priority small civil works and/or activities completed in target communities in three selected ger areas of Bayanhongor, Choyr, and Erdenet; and</li> <li>(iv) enhanced transparency and accountability in managing public funds and allocating resources.</li> </ul>

### III. Grant Categories of Expenditure, Amounts, and Percentage of Expenditures

<b>Category</b>	<b>Amount of Grant Allocated in \$</b>	<b>Percentage of Expenditures</b>
1. Civil works	288,750	19
2. Equipment and supplies	536,250	36
3. Training workshops and seminars	109,600	7
4. Project management	316,500	21
5. Monitoring and evaluation	99,400	7
6. Contingencies	149,500	10
<b>Total</b>	<b>1,500,000</b>	<b>100</b>

## JAPAN FUND FOR POVERTY REDUCTION

**JFPR Grant Proposal  
Background Information**

<b>A. Other Data</b>	
<b>Date of Submission of Application</b>	1 September 2006
<b>Project Officer</b>	Amy Leung, Principal Urban Development Specialist, EASS Sri Wening Handayani, Senior Social Development Specialist, RSGS
<b>Project Officer's Division, E-mail, Phone</b>	East Asia Social Sectors Division, <a href="mailto:aleung@adb.org">aleung@adb.org</a> , 632-6730 Gender, Social Development, and Civil Society Division, <a href="mailto:swhandayani@adb.org">swhandayani@adb.org</a> , 632-6962
<b>Other Staff Who Will Need Access to Edit/Review the Report</b>	Maureen Mamayson, Administrative Assistant, EASS
<b>Sector</b>	Water supply, sanitation, and waste management
<b>Subsector</b>	Water supply and sanitation, waste management, other social service and social development
<b>Themes</b>	Governance, inclusive social development
<b>Subthemes</b>	Civil society participation, other vulnerable groups
<b>Targeting Classification</b>	Targeted Intervention – MDG7 T10
<b>Was JFPR Seed Money used to prepare this grant proposal?</b>	Yes [ X ]    No [   ]
<b>Have SRC comments been reflected in the proposal?</b>	Yes [ X ]    No [   ]
<b>Name of Associated ADB-Financed Operation(s)</b>	Urban Development Sector Project (approved on 19 Dec. 2006)
<b>Executing Agency</b>	Ministry of Construction and Urban Development
<b>Grant Implementing Agency(ies)</b>	Tsevelsodnom Gankhuu, State Secretary Ministry of Construction and Urban Development Barilgachdiin talbai #3, Ulaanbaatar 21128, Mongolia Phone/fax# 976-11-321187

**B. Details of the Proposed Grant****1. Description of the Components, Monitorable Deliverables/Outcomes, and Implementation Timetable**

<b>Component A</b>	
<b>Component Name</b>	Capacity building to strengthen formal and informal local institutions
<b>Cost</b>	\$241,600
<b>Component Description</b>	Component A has three main objectives: (i) Community mobilization: mobilizing local communities to participate in the JFPR Project through the provision of technical assistance by facilitators and nongovernment organizations (NGOs). (ii) Training and capacity building: strengthening the capacity of local communities and local governments to (a) initiate, (b) plan and implement, and (c) manage and supervise community

	<p>subprojects through the provision of technical assistance, training, and workshops.</p> <p>(iii) Participatory monitoring and evaluation: establishing a system for participatory monitoring and evaluation (M&amp;E) and strengthening community capacity to undertake M&amp;E.</p> <p>The expected outcomes of component A include</p> <p>(i) identification and selection of community groups willing to participate in the JFPR Project;</p> <p>(ii) appointment of NGOs to provide training and raise community awareness for community mobilization, participatory planning, implementation, and monitoring at the local level;</p> <p>(iii) provision of technical assistance and training in participatory planning, project design and implementation, and M&amp;E to local savings groups and CBOs;</p> <p>(iv) establishment of a participatory M&amp;E system;</p> <p>(v) provision of vocational training on a demand-driven basis that supports community income-generating activities;</p> <p>(vi) provision of training to support specific activities of the proposed loan project, including making household water connections, compost toilets, and energy-efficient stoves; and</p> <p>(vii) development of a community information, education, and communication strategy.</p>
Monitorable Deliverables/Outputs	<p>(i) NGOs are appointed and local community mobilizers are hired.</p> <p>(ii) Training sessions for organizing and establishing savings groups are conducted in the community.</p> <p>(iii) Savings groups are established on a voluntary basis.</p> <p>(iv) Local facilitators are trained in planning, implementing, and monitoring community-driven development (CDD).</p> <p>(v) The information, education, and communication strategy is developed.</p> <p>(vi) A community handbook targeting community members and detailing the subproject development process is prepared and distributed.</p> <p>(vii) Local facilitators working with community leaders conduct awareness programs on the JFPR Project directed to selected communities in ger areas.</p> <p>(viii) CBOs are formed by savings groups on a voluntary basis.</p> <p>(ix) Subproject proposals are developed by savings groups and CBOs with the assistance of local facilitators.</p> <p>(x) A participatory M&amp;E methodology, procedures, instruments, and implementation schedule are established.</p>
Implementation of Major Activities: Number of months for grant activities	July 2007–May 2011 (47 months)

<b>Component B</b>	
Component Name	Grants for community-driven development initiatives
Cost	\$1,155,000
Component Description	(i) Preparation by community groups of subproject proposals for small-scale community infrastructure and income-generating projects. They will have an open menu of subproject options with a shortlist of prohibited subprojects with negative impacts that will be finalized at the start of the JFPR Project.

	<ul style="list-style-type: none"> <li>(ii) Evaluation of subproject proposals by the project technical working committee (TWC) represented by different agencies in the project steering committee (PSC) according to a set of criteria to be developed and verified at the start of the JFPR Project, and based on the following principles: <ul style="list-style-type: none"> <li>(a) maximum community participation in developing the proposals;</li> <li>(b) maximum community benefit;</li> <li>(c) community contribution (in cash and kind);</li> <li>(d) local government contribution (e.g., land and operation and maintenance (O&amp;M) support);</li> <li>(e) O&amp;M plan in place;</li> <li>(f) capacity of the community to implement the subproject; and</li> <li>(g) completion of the subproject within the year.</li> </ul> </li> <li>(iii) Provision of small grants to community groups (savings groups and CBOs) on a demand-driven basis for subprojects that include small-scale infrastructure, social services, and productive or income-generating subprojects.</li> <li>(iv) Implementation of subprojects by the communities, including accounting and financial management, procurement of labor and materials, O&amp;M, and M&amp;E. The project implementation unit (PIU) will develop a maintenance manual that can be used by community groups to develop a simple maintenance plan for each subproject.</li> <li>(v) CBOs to manage and operate community facilities established under the JFPR Project.</li> </ul>
Monitorable Deliverables/Outputs	<ul style="list-style-type: none"> <li>(i) Community subprojects are appraised and selected.</li> <li>(ii) The community implements subprojects, including procurement of labor and materials, financial management, O&amp;M, and M&amp;E.</li> <li>(iii) Transparency and accountability mechanisms are in place.</li> </ul>
Implementation of Major Activities: Number of months for grant activities	July 2008–December 2010 (30 months)

<b>Component C</b>	
Component Name	Project management, monitoring and evaluation, and publicity
Cost	\$403,900
Component Description	<ul style="list-style-type: none"> <li>(i) Implementation of pilot project.</li> <li>(ii) M&amp;E systems.</li> <li>(iii) Reporting to stakeholders.</li> <li>(iv) Dissemination of information to other ger areas.</li> <li>(v) Three national conferences.</li> <li>(vi) Public awareness program through mass media.</li> <li>(vii) Policy review and recommendation on CDD in ger areas.</li> <li>(viii) Impact assessment on the sustainability of the CDD approach.</li> </ul>
Monitorable Deliverables/Outputs	<ul style="list-style-type: none"> <li>(i) The PSC is established and meeting regularly.</li> <li>(ii) A PIU is established and contractual staff are hired.</li> <li>(iii) A grant implementation manual is prepared.</li> <li>(iv) Annual M&amp;E reports are submitted.</li> <li>(v) Regular information newsletters on progress are distributed to other funding agencies, NGOs, and local government agencies responsible for developing ger areas.</li> </ul>

	(vi) Annual workshop and conference on progress and outputs are held. (vii) A national publicity campaign is conducted. (viii) A report on policy review and recommendations is submitted. (ix) A report assessing the impact of the financial, institutional, educational, and social sustainability of the CDD approach is submitted.
Implementation of Major Activities: Number of months for grant activities	June 2007–June 2011 (49 months)

## 2. Financing Plan for Proposed Grant to be Supported by JFPR

Funding Source	Amount (\$)
JFPR	1,500,000
Government	150,000 (in kind)
Other Sources	
DED (German Development Service [Deutscher Entwicklungsdienst])	In kind <sup>1</sup>
Community	300,000 (in cash and kind) <sup>2</sup>
<b>Total</b>	<b>1,950,000</b>

## 3. Background

1. Urban areas in Mongolia present two very different and distinct patterns of residential development, which are highly correlated with poverty. The first involves planned areas based on Soviet-style planning practices and featuring multifamily housing surrounded by vaguely defined open space. The second involves “temporary” *ger* (informal settlement in urban area) areas that are characterized by long strips of large, unserviced plots with wide dirt roads on at least two sides. Mongolia’s poor population is concentrated in these *ger* areas. More than 36% of the total population of Mongolia live below the poverty line, and almost 80% of the poor live in *ger* areas in Ulaanbaatar and in *aimag* (province) centers. Among the selected cities for the Japan Fund for Poverty Reduction (JFPR) grant,<sup>3</sup> the average incidence of poverty is 41.4%, and an average of 83% of the cities’ poor residents live in *ger* areas. Of the 23,749 total project beneficiary households, an estimated 11,620 poor households (49%), which is roughly 77% of the selected cities’ poor residents, will benefit from the proposed Project.

2. Following the Soviet exodus from Mongolia at the beginning of the 1990s, there has been relatively little formal extension of urban areas, but *ger* areas continued to grow in most cities. As a result, there has been a growing disparity in the provision of services between *ger* areas and formal housing sites. Among project beneficiaries, 88% rely on trucked water, either at kiosks or delivered to their houses, as their primary source of water. Such water is of lower quality and less reliable than the central piped water supply. Beneficiaries pay

<sup>1</sup> The proposed JFPR project and the Urban Development Sector Project loan will share the expertise of three community development specialists funded by DED (Deutscher Entwicklungsdienst), the German Development Service.

<sup>2</sup> Communities will be expected to contribute some of their own resources (cash and in kind) to demonstrate their commitment to implementing the subproject and to maintaining the infrastructure. However, the amount of community contribution to subprojects will not be stipulated by the JFPR Project. Rather, communities will decide how much they can contribute (cash and in kind), and their pledged contribution will be one of several elements to consider when the subproject proposal is appraised. Experience from other CDD projects has shown that community contributions are higher when the amount is not mandated.

<sup>3</sup> Project cities include Bayanhongor, Choyr, and Erdenet.



disproportionately high tariffs for water—anywhere from MNT0.8 to MNT2.0 per liter of water, compared with MNT0.10–MNT0.20 per liter among apartment dwellers. Meanwhile, per capita water consumption in ger areas is significantly lower—about 4.7 liters per day compared with the normative 240 liters per day among apartment dwellers.<sup>4</sup> Moreover, ger area residents spend from 12 to 34 minutes on average each day fetching water from kiosks located an average of 0.3 kilometer away.

3. Heat is another differentiating factor between the rich and the poor. Ger area residents primarily use highly polluting stoves for heating and cooking, burning 5–10 tons of coal per year at an average cost of \$21.67 per ton and 4–16 cubic meters (m<sup>3</sup>) of wood at an average cost of \$12.14 per m<sup>3</sup>. In Erdenet, the average household monthly expenditure for heating varies from about 6% of the total expenditure or \$10.36, to 12% or \$19.10.<sup>5</sup> By contrast, nonpoor families, which are predominantly apartment dwellers, spend 3–4% on heating.<sup>6</sup> In addition, ger area residents spend about 7 hours per week on average to collect and prepare fuel.

4. Other basic infrastructure lacking in ger areas includes sanitation, paved roads, street lighting, and drainage; and social services, such as schools and health clinics, which are very scarce. Virtually all households use unimproved and, in many cases, dilapidated pit latrines. Ger area households suffer from the negative health consequences associated with (i) unsafe drinking water, (ii) poor sanitation, (iii) little to no solid waste management, and (iv) air pollution created by stoves.

5. Ger housing areas have been a major feature of Mongolia's urban landscape for many years. Nevertheless, a lingering government attitude is that these areas are temporary in nature and that formally developed apartments will replace them soon. This attitude persists at virtually every level of city decision-making in planning departments, utility agencies, and government offices. This is one reason why previous efforts to upgrade ger areas have been undertaken in only a limited and piecemeal manner, with little interest in generating more broad-based or longer-term improvements. Until now, there has been little meaningful development or visible change in most ger areas.

6. The Urban Development Sector Project (UDSP), to which the proposed JFPR Project will be linked, will put into operation a clear and systematic approach to ger area upgrading that can be pursued and expanded over time. The UDSP depends on a community-driven approach, in which residents, acting collectively, can decide to implement individual on-plot facility improvements, namely the addition of individual water connections, and improved sanitation and heating options.

7. To successfully implement a community-driven approach, it will be necessary to have strong CBOs in place that can voice out the community's needs and preferences to the local government and the public urban service organization (PUSO).<sup>7</sup> The proposed JFPR grant will directly support the UDSP by piloting innovative approaches to mobilizing communities and preparing them to act collectively. Under component C of the UDSP, when residents along a block collectively decide to obtain individual water connections, they will be able to access a

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<sup>4</sup> Water in apartments is typically not metered, so actual consumption is unknown. The normative standard on which apartment water tariffs are currently based is 240 liters per day. The ger area consumption figures were calculated based on PUSO sales.

<sup>5</sup> ADB. 2006. *Urban Development and Housing PPTA Household Survey*. Manila.

<sup>6</sup> NSO. 2003. *National Statistical Office Income and Expenditure Survey, 2002–2003*. Mongolia.

<sup>7</sup> PUSO is a local public utility service organization and the Company Law (1999) provided for the corporatization of PUSOs to become financially and managerially autonomous enterprises.

group loan from the UDSP to purchase the necessary pipes and fittings. For component C to be successful, communities must be organized and made familiar with how to work collectively and why. CBOs must be created to help the community interface with the PUSO and local government and to access small loans. While the proposed Asian Development Bank (ADB) loan includes funds for community capacity building and training activities, current ADB-financed projects have shown that it requires substantial time and resources to allow for a bottom-up process to take root.

#### 4. Innovation

8. The proposed JFPR Project will adopt a new and innovative approach to the development of ger area communities. Instead of a top-down planning model, communities themselves will remain firmly in the driver's seat, making decisions, administering funds, and managing implementation of their priority investments. The JFPR Project will serve as a facilitator providing the community with not just funds but also technical support and guidance.

9. The JFPR Project will pilot a decentralized, demand-driven "open menu" approach to community infrastructure development that has not previously been implemented in Mongolia. The Project will introduce

- (i) an open menu for selection of community infrastructure subproject activities;<sup>8</sup>
- (ii) evaluation of community subproject proposals based on the level of community-wide benefits, community commitment, and pledged contributions (cash and in kind) from the local government and community;
- (iii) community management of development resources, including community contracting;
- (iv) arrangements to ensure full community participation and transparency; and
- (v) enhancement of the community mobilization and facilitation process.

10. Community involvement in ger area upgrading activities in Mongolia has to date primarily been a one-way communication channel from the Government or funding agency to the community. Residents are (i) informed about proposed interventions, and (ii) updated on project progress, but communities have not been given decision-making and management responsibility for neighborhood improvements. There has not been a successful attempt to generate local community institutions through an organic, bottom-up process. Community organizations have been established externally, by ADB and World Vision, for example, with some success.<sup>9</sup> However, the voluntary initiative of the community has not been nurtured by these previous efforts; nor were these efforts undertaken in the same cities targeted by the proposed JFPR Project.

11. The proposed JFPR Project builds on experience gained under the JFPR project for Improving the Living Environment of the Poor in Ger Areas of Mongolia's Cities.<sup>10</sup> A comparison

<sup>8</sup> For small-scale community infrastructure development under component B, only communal land that is not occupied or used for residential or productive purposes will be approved.

<sup>9</sup> Under ADB. 2001. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to Mongolia for the Housing Finance (Sector) Project*. (Summary Procedure). Manila (Loan 1847-MON, approved on 18 October), three CBOs were established—one each in Darkhan, Ulaanbaatar, and Zuunmod. The international NGO, World Vision, supported the establishment of several CBOs in Ulaanbaatar.

<sup>10</sup> ADB. 2002. *Grant Assistance to Mongolia for Improving the Living Environment of the Poor in Ger Areas of Mongolia's Cities Project (Financed from the Japan Fund for Poverty Reduction)*. Manila (Grant 9015-MON, approved on 7 May)

of the two projects and discussion of the lessons from Grant 9015–MON are included in Supplementary Appendix A.

12. CDD has proven successful in other developing countries and is a promising solution for giving voice to and meeting the needs of Mongolia's poor and vulnerable families in ger areas who are disenfranchised by the current decision-making processes that continue to neglect the provision of basic services to these residents. About half of the beneficiary population are living below the poverty line and about half are women. They will have equal voice through the proposed JFPR Project to decide what types of community infrastructure they need most and how it should be managed. Community subproject proposals will be evaluated on the basis of inclusiveness of the planning process and the level of community-wide benefit. Only subprojects that maximize benefits for the community as a whole will be funded.

13. Through CDD, ger area residents will be able to take control of the development of their neighborhoods. The small resources provided by the grant under the JFPR Project will enable communities to build needed infrastructure and undertake income-generating activities. But most importantly, the JFPR Project will impart skills required for communities to (i) access funds, (ii) influence future development, and (iii) hold other public and private sector agencies accountable for the level and quality of services they provide.

## **5. Sustainability**

14. Sustainability is a key feature built into the CDD approach—sustainability of the investments themselves and, perhaps more importantly, of the concept and techniques for CDD planning. Because the investments are responsive to informed community demand—meaning decisions are based on accurate information about cost and benefits of options, and communities' own resources are invested—they are by nature more likely to be sustained than prescribed interventions that do not necessarily respond to the needs and demands of beneficiaries.

15. Moreover, CDD's basic design principles underpin sustainability by

- (i) building participatory mechanisms for community control and stakeholder involvement;
- (ii) investing in building the capacity of local communities and government institutions;
- (iii) facilitating community access to information;
- (iv) maintaining flexibility in design arrangements;
- (v) ensuring social and gender inclusion; and
- (vi) investing in an exit strategy, i.e., recurrent services require permanent institutional and financing arrangements at the local level.

16. Experience with CDD around the world has proven that communities that have managed the implementation of a community asset are far more active in maintaining it. A key requirement of subproject approval is the preparation of an O&M plan. The JFPR Project will prepare a maintenance manual that can be used as a guide by the communities. Training will be provided not only in technical maintenance aspects but also in areas such as fund raising and social aspects, such as hygiene education. Maintenance teams will be elected within each community group and trained in all aspects of maintenance, and a maintenance fund will be established before the completion of the subproject. Local governments will also be required to contribute to the subprojects. They will be encouraged to support the subprojects primarily

through the provision of land.<sup>11</sup> If and when applicable, local governments will be encouraged to support ongoing O&M of recurrent services. The CBOs will be responsible for O&M of the community facilities built under the JFPR Project.

17. The far greater impact of the proposed JFPR Project will be the community education process that will develop active citizens and an accountable local government. Training sessions on community planning will enable residents to (i) analyze their community needs, (ii) prepare formal proposals, and (iii) demand infrastructure from their politicians. They will ultimately learn how to access funds. That capability will long outlive the proposed JFPR Project. At the completion of the JFPR Project, communities will be equipped with the required knowledge and skills to plan projects and access funds, while local governments will have the required skills and experience to adopt community-driven approaches to future planning and development activities.

## 6. Participatory Approach

18. A community demand-driven, open menu approach to investment is at the center of the proposed JFPR Project, which empowers communities to decide and act, while curbing the established, top-down planning approach. In Mongolia, there is no recent tradition of community organizing or community action. The proposed JFPR Project will enable the target community to be transformed from passive beneficiaries to active citizens. CDD is one of the most participatory approaches to development that exists today. At each stage in the development process, the community has a critical role to play. Communities, with the assistance of technical experts, will (i) prioritize development needs, (ii) make decisions on how resources are used, (iii) manage the implementation of subprojects, and (iv) monitor and evaluate the results of projects to ensure that they benefit the community as a whole.

19. The proposed JFPR Project will incubate, nurture, and guide voluntary community action rather than superimpose institutions on the community, an act that results in lack of commitment and ownership. At the core of the community mobilization strategy is the establishment of savings groups. Savings groups are proving to be an effective model for social mobilization and community organization in Mongolia.<sup>12</sup> Savings groups are entirely voluntary organizations, comprising from 20 to 40 households living in the same neighborhood. The JFPR Project will (i) provide support and training through local NGOs to establish the savings groups, and (ii) enable each group to determine the terms of its savings and lending practices, i.e., (a) how much to save, (b) how often to contribute, (c) who collects the money, and (d) what are the terms of the loans. The Project will provide support to active and interested savings groups to form together larger, legally registered CBOs of 200–300 households. The formation of savings groups and CBOs will be on a voluntary basis. CBOs will be geographically based according to heseg.<sup>13</sup> Membership will be open to all residents of the heseg, and households that are not members of savings groups will not be excluded from participating in the CBO.

20. With facilitation assistance provided on behalf of the JFPR Project by local NGOs, these voluntary community groups (savings groups and CBOs) will identify and prioritize needs and

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<sup>11</sup> Local governments have demonstrated a willingness to contribute land for community projects. The local government of Darhan provided land for the integrated community centers constructed under the existing JFPR project. Erdenet local government also recently provided land to a savings group, which closed a street to create a community green space.

<sup>12</sup> Based on the experiences of the Urban Development Resource Center, a local NGO has established 24 savings groups with a total of 418 members to date in urban centers around the country.

<sup>13</sup> A heseg is the smallest settlement area within a subdistrict.

develop a comprehensive plan for mitigating identified problems. A key objective of the facilitation process will be to ensure that all community members, including women and marginalized groups, have been consulted. The participatory process ensures that dissenting voices are heard and that consensus is built on the plan.

21. With technical assistance from the JFPR Project, the community group itself will prepare a formal subproject proposal and budget. After the subproject proposal is evaluated and approved, the community group will manage the implementation of the subproject, including (i) handling the funds; (ii) procuring materials and transportation; and (iii) hiring contractors, laborers, and/or consultants. The community will prepare a maintenance plan and establish a fund for maintenance.

22. The JFPR Project will also employ participatory M&E techniques in which stakeholders are involved in (i) deciding what will be monitored and evaluated, and how and when data will be collected and analyzed, (ii) analyzing the data, and (iii) sharing findings. The community will be required to describe its M&E plan in the subproject proposal.

<b>Primary Beneficiaries and Other Affected Groups and Relevant Description</b>	<b>Other Key Stakeholders and Brief Description</b>
<p>1. Ger area residents are the primary beneficiaries of the proposed project. Almost half (49%) of the target beneficiaries are considered poor. All the beneficiaries lack access to basic infrastructure and services and most live in substandard housing.</p> <p>2. Local governments of the three selected cities will receive training in community-driven approaches to development. They will acquire skills to work with communities toward development goals that benefit the city as a whole, making its governance more transparent and accountable.</p> <p>3. Local NGOs will be involved in the community mobilization, facilitation, and training activities. They will play a key role in motivating and nurturing bottom-up community action.</p>	<p>1. The Ministry of Construction and Urban Development, serving as the executing agency for the JFPR Project, has a stake in piloting new approaches to ger area development that rely on public-private partnerships and community initiatives.</p> <p>2. Ongoing funding agency and NGO projects, including the World Bank's Japan Social Development Fund (JSDF)'s Community-Led Infrastructure Project; UN-Habitat's Citywide Pro-Poor Ger Area Upgrading Strategy and Investment Plan for Ulaanbaatar; GTZ (Deutsche Gesellschaft für Technische Zusammenarbeit) Urban Development Programme; Center for Human Rights and Development's Ger Area Housing Improvement; Urban Development Resource Center's Improvement of Ger Areas; and other local NGO activities, all operating in Ulaanbaatar, will benefit from the experiences of the proposed JFPR Project. Regular roundtable discussions with the project staff and other organizations working on CDD of ger areas will be held to facilitate exchange of experience and information among funding agencies and NGOs to develop a set of best practices that can be replicated.</p> <p>3. DED (German Development Service [Deutscher Entwicklungsdienst]) has committed to support the proposed JFPR Project with technical experts in community development, which will be shared with the UDSP. The DED specialists will help develop the information and communication strategy, community handbooks, and community training modules; and technical assistance will be provided as needed to resolve issues faced by the communities implementing subprojects.</p>

## 7. Coordination

23. The Government, NGOs, project beneficiaries, and other funding agencies with a significant interest in ger area upgrading were consulted during project preparation and fact-finding in June 2006. The proposed JFPR Project will actively be coordinated with other funding agency activities aimed at ger area community development. While the Japan International Cooperation Agency is very active in Mongolia, it is not operating in the urban development sector currently. In addition to ADB, the World Bank is the other major external funding agency working in the urban development sector in Mongolia, and the World Bank primarily targets activities to the capital city, Ulaanbaatar. The UDSP will be implemented in the aimag centers including Erdenet. The proposed JFPR Project will be undertaken in Bayanhongor, Choyr, and Erdenet.

24. The World Bank's JSDF Community-Led Infrastructure Project,<sup>14</sup> which began in 2005, is linked to the World Bank's Ulaanbaatar Services Improvement Project, Phase II. This JSDF project presents an opportunity to develop synergies with the proposed JFPR Project. The lessons from each activity can be analyzed and applied to the other, or adapted as appropriate. Regular roundtable discussions will be held to facilitate exchanges of experience and information among funding agencies and NGOs to develop a set of best practices that can be replicated. Likewise, the proposed JFPR Project will build on experience gained under the ongoing Grant 9015–MON (footnote 10).

25. The Embassy of Japan was briefed about the proposed JFPR Project on 22 June 2006. It was emphasized that the proposed JFPR Project is a new and exciting development concept that has the potential to transform the future development of Mongolia's urban ger areas, where over 60% of the urban population live. The successes and lessons about CDD in other countries, including Indonesia and the Philippines, were discussed, as well as lessons from other Japanese grant activities in Mongolia. The ways in which the proposed JFPR Project will improve upon the ongoing JFPR activity were outlined to demonstrate that the new JFPR Project will result in an evolution of development practices and synergies with other activities.

## 8. Detailed Cost Table

26. Please refer to Appendix 1 for the summary of costs, to Appendix 2 for the detailed cost estimates, and to Appendix 3 for the fund flow arrangements.

## C. Linkage to ADB Strategy and ADB-Financed Operations

### 1. Linkage to ADB Strategy

27. The urban development sector is a key area of focus of ADB assistance to Mongolia. Together with the World Bank, ADB is the primary funding agency concerned with improving living conditions of ger area residents, who comprise more than 60% of Mongolia's urban population. ADB's sector strategy supports the Government's goal of providing 40,000 families with opportunities to live in houses with proper facilities. It strives to make visible, tangible, and

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<sup>14</sup> The objective of the JSDF project is to improve the quality of life of the urban poor through building local infrastructure and low-cost sanitation in selected informal settlement areas (ger areas) in Ulaanbaatar. This project was approved in 2004. The community-led infrastructure project was identified prior to the approval of the Government of Japan and the menu of infrastructure selection is quite restricted. The proposed JFPR Project will be based on the demand of communities.

affordable improvements in living conditions of ger area households. The strategy is based on the lessons from three ongoing loans in the sector: (i) Loan 1847–MON: Housing Finance (Sector) Project (footnote 9), (ii) Loan 1907–MON: Integrated Development of Basic Urban Services in Provincial Towns,<sup>15</sup> and (iii) Loan 1736–MON: Capacity Building for Cadastral Survey and Land Registration;<sup>16</sup> and a JFPR activity that supports the first two loans: Grant 9015–MON (footnote 10). A key lesson of these projects is that community initiative and local ownership are essential for the success of ger area upgrading efforts. The formation and strengthening of CBOs as proposed herein is therefore an integral component for improving living conditions in the ger areas of Mongolia, a goal shared by the Government and ADB.

28. In addition to meeting the sector goals of the Government and ADB, the expected outcomes of the JFPR Project also satisfy several goals for poverty reduction. About 80% of the country's urban poor live in ger areas. ADB's country strategy and program for Mongolia (2005–2008)<sup>17</sup> adopts the Government's two key objectives of higher private sector-led growth and inclusive social development. The latter encompasses the Government's priority goals of improving the quality of public services and their accessibility for the poor. These goals derive from the Government's Economic Growth Support and Poverty Reduction Strategy, finalized in 2003.<sup>18</sup> Improved access to urban services and better housing are among the immediate targets that the Project will help realize.

Document	Document Number	Date of Last Discussion	Objective(s)
Country Strategy and Program (2005–2008)	Sec.M68-05	23 August 2005	ADB's operational strategy focuses on (i) fostering higher private sector-led growth, and (ii) promoting inclusive social development.
Urban Development and Housing Sector Strategy (2005–2008)	P36392-MON	19 June 2006	ADB's sector strategy in urban development and housing is to support the Government of Mongolia's Action Plan for 2004–2008 and its goal of providing 40,000 families with opportunities to live in houses with proper facilities. A major effort of the strategy is to make visible, tangible, and affordable improvements in living conditions for ger area households.

## 2. Linkage to Specific ADB-Financed Operation

<b>Project Name</b>	Urban Development Sector Project
<b>Project Number</b>	37967
<b>Date of Board Approval</b>	19 December 2006
<b>Loan Amount (\$ million)</b>	28.2 equivalent

<sup>15</sup> ADB. 2002. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to Mongolia for the Integrated Development of Basic Urban Services in Provincial Towns Project* (Summary Procedure). Manila (Loan 1907–MON, approved on 6 August).

<sup>16</sup> ADB. 2001. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan and Technical Assistance Grant to Mongolia for the Cadastral Survey and Land Registration Project* (Summary Procedure). Manila (Loan 1736–MON, approved on 27 January).

<sup>17</sup> ADB. 2005. *Country Strategy and Program for Mongolia*. Manila.

<sup>18</sup> Government of Mongolia. 2003. *Economic Growth Support and Poverty Reduction Strategy*. Ulaanbaatar.

### 3. Development Objective of the Associated ADB-Financed Operation

29. The objective of the UDSP is to achieve substantial improvements in living conditions for ger area households through comprehensive development based on coordinated public and private investment. The outcome of the UDSP will be affordable infrastructure and on-plot facility improvement for households living in the subproject areas. The UDSP will assist the Government in its efforts to (i) provide sustainable and affordable infrastructure and urban services to ger area residents and the urban poor; (ii) promote community participation in project preparation, implementation, postproject operation, and follow-on activities; (iii) improve urban planning and management; and (iv) increase the capacity of government and other public agencies to provide and operate urban services.

30. The UDSP consists of four components: (i) component A: improvement of basic urban services in aimag centers (including increased water supply and distribution, sewage network repair, and solid waste equipment); (ii) component B: improvement of urban roads in Ulaanbaatar; (iii) component C: small-scale plans for water connections and on-plot facility improvement (i.e., individual water connections, compost toilets, and smokeless stoves); and (iv) component D: institutional development and training (including capacity building, project management support, technical assistance, training, and study tours).

31. The proposed JFPR Project will directly support component C of the UDSP. Under component C, when residents along a block collectively decide to obtain individual water connections, they will be able to access a group loan from the UDSP to purchase the necessary pipes and fittings. Prior to this, they will need to have saved roughly 40% of the cost of this material as collateral before receiving a loan for the rest. Households that choose to do so will also be able to borrow funds for composting toilets and smokeless stoves as part of the group loan.

32. For component C to be successful, communities must be organized and be familiar with how and why to work collectively. CBOs must be created (i) to help the community interface with the PUSO and local government, and (ii) to access the small loans. While the UDSP includes funds for community capacity building and training activities, the current ADB projects have shown that it requires substantial time and resources for a bottom-up process to take root. Under the ongoing Housing Finance (Sector) Project, CBOs were artificially created in communities rather than voluntarily established at the behest of the community members.

33. The JFPR Project will provide the necessary resources to pilot innovative methods for grass-roots community organization. The UDSP will help provide on-plot facilities to be owned and managed by individual households, while the JFPR Project will focus on public facilities that serve the communities' needs and will be managed by the communities. The community mobilization efforts of the proposed JFPR Project will result in blocks of households that are ready and able to work together to take loans for individual water connections, as well as composting toilets and improved energy-efficient stoves. The training and capacity building component of the proposed JFPR Project will also directly support the efforts of individual households to take full advantage of the benefits of the UDSP. With JFPR funding, households will have access to training, for example, on how to (i) build compost toilets and bins, (ii) compost properly, (iii) incorporate water pipes into their houses, (iv) build bathrooms and kitchens, (v) retrofit stoves, and (vi) dispose off graywater.



#### 4. Main Components of the Associated ADB-Financed Operation

No.	Component Name	Brief Description
1.	Improvement of Basic Urban Services	Provision of urban infrastructure to ger areas (improved water supply and distribution, repair of sewage networks, and solid waste equipment)
2.	Improvement of Urban Roads	Upgrading of existing unpaved roads in Ulaanbaatar
3.	Small Loans for Water Connections and On-Plot Facility Improvement	Provision of small loans to blocks of households for the installation of individual water connections, composting toilets, and smokeless stoves
4.	Institutional Development and Training	Project management: training, technical assistance, and study tours

#### 5. Rationale for Grant Funding versus ADB Lending

34. The UDSP with which the JFPR Project will be associated will (i) provide sustainable and affordable infrastructure and urban services for ger area residents and the urban poor; (ii) promote community participation in project preparation, implementation, post-project operation, and follow-on activities; (iii) improve urban planning and management; and (iv) increase the capacity of government agencies to provide and operate urban services.

35. While the UDSP will yield many important benefits for ger area residents, the benefits will primarily be at the individual household level, rather than at the level of the community as a whole. The JFPR Project is an opportunity to fund community-infrastructure facilities in a demand-driven fashion that fully empowers communities and allows them to make decisions, manage funds, and implement small projects.

36. While communities have been consulted during the preparation stages of the UDSP, as in previous ADB- and World Bank-financed projects in the country, they are not in the driver's seat making decisions about (i) how the money will be spent to improve their neighborhood, (ii) how much they are willing to contribute, or (iii) how they will operate and maintain community amenities. CDD is a new concept for Mongolia. While this approach to development has been tried and proven successful in many other countries, it still must be pilot-tested to determine how it can work in the Mongolian context. Once a successful model for CDD is established, it can be replicated with future funding agency assistance.

#### D. Implementation of the Proposed Grant

1. Provide the Name of the Implementing Agency	Ministry of Construction and Urban Development
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37. The project management unit (PMU) of the UDSP will be responsible for recruiting consultants and local NGOs funded by the JFPR Project in accordance with ADB's Guidelines on the Use of Consultants (2006, as amended from time to time) to provide the services for implementing, managing, and monitoring progress of the JFPR Project. A PIU will be established within the PMU and work under its guidance. Terms of reference for consulting services are in Supplementary Appendix B.

38. Local NGOs will be contracted to implement the training and capacity-building activities under component A, with the support of the international community development specialist(s) (funded by DED). After community groups are formed, the NGOs will (i) guide interested groups through a participatory planning process, and (ii) assist the groups to complete a proposal and a budget for their priority subprojects.

39. Subproject proposals will be reviewed by the PIU, with assistance from the technical working committee, which will conduct a desk and field appraisal. Once the proposal is approved, a financing agreement will be signed with the community group, which will have primary responsibility for implementing the subproject. The PIU will hire one community mobilizer in each of the three project towns to provide support and guidance to community groups in implementing the subprojects. The community mobilizer will be responsible for coordinating all aspects in the field of component B.

40. Procurement related to project management of the JFPR Project will be conducted by the PMU in accordance with ADB's *Procurement Guidelines* (2006, as amended from time to time). Procurement of materials and equipment, transport, and labor required to implement subprojects under component B of the JFPR Project will be conducted with community participation in accordance with ADB's *Procurement Guidelines*. The procurement plan is in Supplementary Appendix C.

## 2. Risks Affecting Grant Implementation

Type of Risk	Brief Description	Measure to Mitigate the Risk
Social	Higher-income groups capture benefits of the JFPR Project.	<p>Promote effective participation of the poor at each stage in the subproject cycle.</p> <p>In addition to committed community contribution, evaluate the inclusiveness of the project planning process and expected project benefits during subproject evaluation.</p> <p>Establish community-built accountability procedures and effective information sharing.</p> <p>Develop a mechanism for conflict management and grievance redress.</p> <p>Establish an M&amp;E process that includes the tracking of resource flows to beneficiaries and the engagement of civil society.</p>
	The community, local government, and PIU lack motivation and have weak implementation capacity.	<p>Target training and technical assistance resources to community groups that demonstrate voluntary initiative and willingness to participate in the JFPR Project.</p> <p>Keep the project design simple, and prepare and distribute an easy-to-use community handbook describing the stages of implementation and activities to be undertaken by the community.</p> <p>Determine clear and agreed-upon beneficiary selection criteria.</p>

Type of Risk	Brief Description	Measure to Mitigate the Risk
Financial	Input costs rise significantly.	<p>Monitor the market and keep information flowing to the community so that the latter can purchase inputs from the cheapest source.</p> <p>Develop a unit cost database that includes costs of all types of items purchased at the community level, and a reference price list for communities to use in negotiating with suppliers.</p> <p>Verify the cost of each subproject component against standards for materials, labor, transport, and other costs during subproject appraisal.</p>
Institutional	Lack of an existing legal framework for CBOs disrupts disbursement of funds to community groups.	<p>Prepare a manual, including templates, forms, and contacts required to assist CBOs to register as legal NGOs in the most efficient manner.</p> <p>In roundtable discussions and annual workshops with other funding agencies and NGOs, develop policy and legal recommendations for CDD.</p>

### 3. Monitoring and Evaluation

41. The detailed project performance monitoring framework is in Supplementary Appendix D.

Key Performance Indicator	Reporting Mechanism	Plan and Timetable for Monitoring and Evaluation
<p>Establishment and increased capacity of local CBOs to work with local authorities in monitoring and overseeing basic service delivery as measured by</p> <p>(i) number of operational savings groups,</p> <p>(ii) number of operational and financially viable CBOs,</p> <p>(iii) percentage of resident population who have become savings group and CBO members,</p> <p>(iv) number of CBOs with community-approved business plans,</p> <p>(v) improved governance as evidenced by the contribution of local authorities to planning and implementing subprojects, and</p> <p>(vi) improved poverty and human development indicators in beneficiary communities.</p>	<p>PIU monthly reports</p> <p>Contracted NGO monthly progress reports</p> <p>Financial records of CBOs</p> <p>Annual subdistrict office survey of households</p> <p>Socioeconomic survey</p> <p>External evaluation study</p>	<p>Monitor number of savings groups formed monthly.</p> <p>Monitor number of groups of savings groups that form themselves into CBOs quarterly.</p> <p>Evaluate financial records of community groups annually.</p> <p>Monitor commitment of local governments to subproject.</p> <p>Collect baseline poverty and human development indicators at project launch and conduct follow-up data collection in 2010 and 2011.</p>
Preparation of community-led infrastructure and small-scale enterprise plans in a participatory and technically satisfactory manner as measured by	<p>PIU monthly reports</p> <p>Contracted NGO monthly progress reports</p>	Assess training programs in January 2008, 2009, 2010, and June 2011

Key Performance Indicator	Reporting Mechanism	Plan and Timetable for Monitoring and Evaluation
(i) number of participants in training sessions on participatory planning and subproject proposal development held for communities and local governments , (ii) number of subproject proposals and budgets completed, (iii) inclusiveness of planning process, and (iv) number of subproject proposals approved.	External evaluation study	Assess subproject proposal development process in December 2008, 2009, 2010, and June 2011.  Assess subproject evaluation process in December 2008, 2009, 2010, and June 2011.
Priority small civil works and activities completed in target communities in selected ger areas as measured by  (i) number of subprojects completed at technical standards by sector, (ii) number of beneficiaries reached, (iii) O&M plans in place, and (iv) degree of community satisfaction with completed subprojects.	PIU annual reports  CBO subproject completion report  Point of contact surveys  Participatory M&E mechanisms (i.e., Venn or flow diagrams, diaries, photographs, etc.)  External evaluation study	Assess each subproject upon completion, within 6 months of completion and within 1 year of completion.
Enhanced transparency and accountability in managing public funds and allocating resources as measured by  (i) percentage of subprojects where flow of funds is timely; (ii) transparency requirements complied with in subproject preparation, selection, and implementation; and (iii) sanctions enforced in cases of noncompliance with project rules.	Internal and external audits of community group accounts  PIU annual reports  CBO subproject completion report  External evaluation study	Assess transparency and accountability in December 2008, 2009, 2010, and June 2011.

#### 4. Estimated Disbursement Schedule

Fiscal Year (FY)	Amount (\$)
FY1	300,000
FY2	525,000
FY3	450,000
FY4	225,000
<b>Total Disbursements</b>	<b>1,500,000</b>

## **Appendixes**

1. Summary Costs Table
2. Detailed Cost Estimates
3. Fund Flow Arrangements for Japan Fund for Poverty Reduction
4. Implementation Arrangements

## **Supplementary Appendixes**

- A. JFPR Comparison Matrix/Lessons
- B. TOR for Consulting Services
- C. Procurement Plan
- D. Design and Monitoring Framework
- E. Implementation Schedule

**SUMMARY COSTS TABLE**  
(US\$)

Inputs/ Expenditure category	Grant Components →	Component A Capacity Building to Strengthen Formal and Informal Local Institutions	Component B Grants for Community- Driven Development Initiatives	Component C Project Management, Monitoring and Evaluation, and Publicity	Total (Input)	Percent
1. Civil Works		0	288,750	0	288,750	19.0
2. Equipment and Supplies		0	536,250	0	536,250	36.0
3. Training, Workshops, Seminars, and Public Campaigns		105,600	0	4,000	109,600	7.0
4. Consulting Services		0	30,000	97,500	127,500	8.0
5. Grant Management		39,600	0	149,400	189,000	13.0
6. Other Inputs		96,400	0	3,000	99,400	7.0
7. Contingencies (0–10% of total estimated grant fund)		27,000	95,000	27,500	149,500	10.0
<b>Subtotal JFPR Grant Financed</b>		<b>268,600</b>	<b>950,000</b>	<b>281,400</b>	<b>1,500,000</b>	<b>100.0</b>
Government Contribution				150,000	150,000	
Other Funding Agency(ies) Contributions						
		DED staff (in kind)				
Community's Contributions (mostly in kind) (labor and some local materials)			300,000		300,000	
<b>Total Estimated Costs</b>		<b>268,600</b>	<b>1,250,000</b>	<b>431,400</b>	<b>1,950,000</b>	
<b>Incremental Costs</b>						

DED = German Development Service (Deutscher Entwicklungsdienst), JFPR = Japan Fund for Poverty Reduction.

Source: Asian Development Bank estimates.

**DETAILED COST ESTIMATES**

Code	Supplies and Services Rendered	Costs			Contributions			Communities		
		Unit	Quantity Units	Cost Per Unit	Total (\$)	JFPR			Government	Other Funding Agencies
						Amount	Method of Procurement <sup>a</sup>			
	<b>Component A: Capacity Building to Strengthen Formal and Informal Local Institutions</b>			<b>Subtotal</b>	<b>241,600</b>	<b>241,600</b>				
<b>1.1</b>	<b>Civil Works</b>									
<b>1.2</b>	<b>Equipment and Supplies</b>									
<b>1.3</b>	<b>Training, Workshops, and Seminars</b>									
1.3.1	6,000 attendees in 1-day savings group training sessions	person-day	6,000	3	18,000	18,000				
1.3.2	3,000 attendees in 1-day CBO training sessions	person-day	3,000	3	9,000	9,000				
1.3.3	9,000 attendees in 1-day community planning workshops	person-day	9,000	3	27,000	27,000				
1.3.4	100 attendees in 2-day local government training in CDD	person-day	200	3	600	600				
1.3.5	2,500 attendees in 2-day implementation training sessions (incl. accounting, bookkeeping, procuring labor and materials, O&M, M&E)	person-day	5,000	3	15,000	15,000				
1.3.6	6,000 attendees in 2-day (on average) vocational and other training sessions as requested	person-day	12,000	3	36,000	36,000				
<b>1.4</b>	<b>Consulting Services</b>									
1.4.1	International community development specialists (DED)	person-month	144						in kind <sup>b</sup>	

Code	Supplies and Services Rendered	Costs				Contributions					
		Unit	Quantity Units	Cost Per Unit	Total (\$)	JFPR		Government	Other Funding Agencies	Communities	
						Amount	Method of Procurement <sup>a</sup>				
<b>1.5 Management and Coordination of Component A</b>											
1.5.1	Community mobilizer in Erdenet	person-month	44	300	13,200	13,200					
1.5.2	Community mobilizer in Bayanhongor	person-month	44	300	13,200	13,200					
1.5.3	Community mobilizer in Choyr	person-month	44	300	13,200	13,200					
<b>1.6 Other Project Inputs</b>											
1.6.1	Monthly management fee for NGOs for 44 months	month	44	1,250	55,000	55,000					
1.6.2	CBO start-up funds	month	360	115	41,400	41,400					
				<b>Subtotal</b>	<b>1,155,000</b>	<b>855,000</b>					<b>300,000</b>
<b>Component B: Grants for Community-Driven Development Initiatives</b>											
<b>2.1 Civil Works</b>											
2.1.1	Subprojects undertaken by savings groups	subproject	150	1,200	180,000	131,250					48,750
2.1.2	Subprojects undertaken by CBOs	subproject	15	14,000	210,000	157,500					52,500
<b>2.2 Equipment and Supplies</b>											
2.2.1	Subprojects undertaken by savings groups	subproject	150	2,200	330,000	243,750					86,250
2.2.2	Subprojects undertaken by CBOs	subproject	15	27,000	405,000	292,500					112,500
<b>2.3 Training, Workshops, and Seminars</b>											
<b>2.4 Consulting Services</b>											
2.4.1	National technical consultants to develop standard designs and assist with specific subprojects as needed	month	15	2,000	30,000	30,000					



Code	Supplies and Services Rendered	Costs			Contributions					
		Unit	Quantity Units	Cost Per Unit	Total (\$)	JFPR		Government	Other Funding Agencies	Communities
						Amount	Method of Procurement <sup>a</sup>			
<b>2.5</b>	<b>Management and Coordination of Component B</b>									
<b>2.6</b>	<b>Other Project Inputs</b>									
	<b>Component C: Project Management, Monitoring and Evaluation, and Publicity</b>			<b>Subtotal</b>	<b>403,900</b>	<b>253,900</b>		<b>150,000</b>		
<b>3.1</b>	<b>Civil Works</b>									
<b>3.2</b>	<b>Equipment and Supplies</b>									
<b>3.3</b>	<b>Training, Workshops, and Seminars</b>									
3.3.1	Annual roundtable discussions with funding agencies, NGOs	events	4	1,000	4,000	4,000				
<b>3.4</b>	<b>Consulting Services</b>									
3.4.1	International M&E expert	person-month	3	15,000	45,000	45,000				
3.4.2	Travel costs for M&E expert	trips	3	6,000	18,000	18,000				
3.4.3	Auditor	person-month	1.5	15,000	22,500	22,500				
3.4.4	Travel costs for auditor	trips	2	6,000	12,000	12,000				
<b>3.5</b>	<b>Management and Coordination of Component C</b>									
3.5.1	Project manager	person-month	48	1,200	57,600	57,600				
3.5.2	Financial manager	person-month	48	1,000	48,000	48,000				
3.5.3	Office space	lump sum	1	40,000	40,000			40,000		
3.5.4	Office furniture	lump sum	1	80,000	80,000			80,000		
3.5.5	Office equipment	lump sum	1	51,000	51,000	21,000		30,000		
3.5.6	Project operational costs	month	48	100	4,800	4,800				
3.5.7	Auditor	person-month	12	1,500	18,000	18,000				
<b>3.6</b>	<b>Other Project Inputs</b>									
3.6.1	NGO to conduct external evaluation	month	1	3,000	3,000	3,000				

Code	Supplies and Services Rendered	Costs			Contributions					
		Unit	Quantity Units	Cost Per Unit	Total (\$)	JFPR		Government	Other Funding Agencies	Communities
						Amount	Method of Procurement <sup>a</sup>			
	<b>Components A to C = Subtotal</b>			<b>Subtotal</b>	<b>1,800,500</b>	<b>1,350,500</b>		<b>150,000</b>		<b>300,000</b>
	<b>Contingency (Maximum 10% of total JFPR contribution)</b>				<b>149,500</b>	<b>149,500</b>				
	<b>Total Grant Costs</b>			<b>Total</b>	<b>1,950,000</b>	<b>1,500,000</b>		<b>150,000</b>		<b>300,000</b>

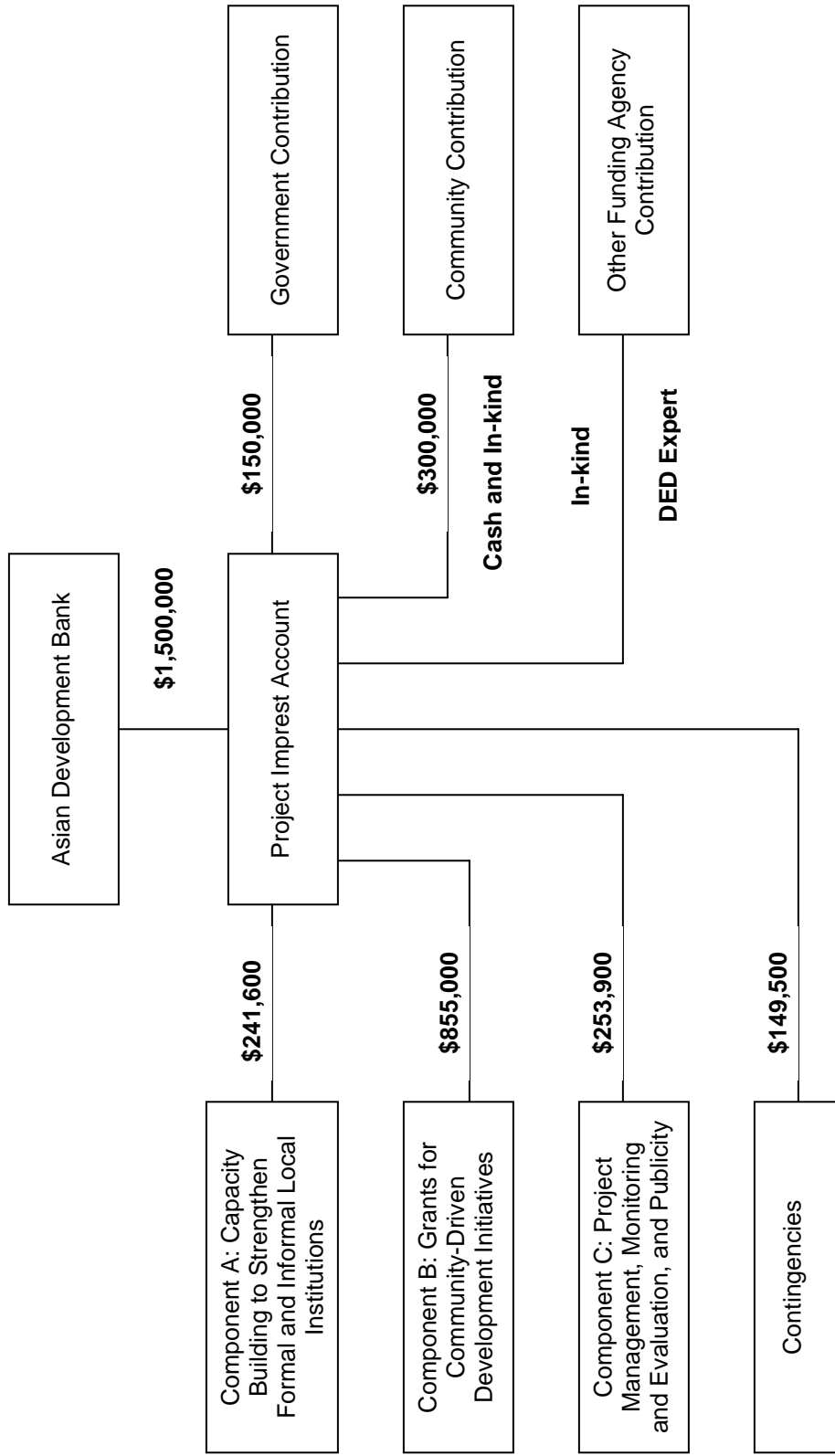
CBO = community-based organization, CDD = community-driven development, DED = German Development Service (Deutscher Entwicklungsdienst), M&E = monitoring and evaluation, NGO = nongovernment organization, O&M = operation and maintenance.

<sup>a</sup> Procurement under component B will be conducted in accordance with ADB's *Guidelines for Community Contracting*. Procurement under components A and C will be conducted in accordance with ADB's *Procurement Guidelines* (2006, as amended from time to time). Goods and services estimated to cost the equivalent of \$100,000 or less will be procured using ADB's direct purchase procedure. Goods and services estimated to cost more than \$100,000 will be procured using ADB's shopping procedure. The project management unit of the Urban Development Sector Project will be responsible for procurement, with technical inputs from the project implementation unit of the Japan Fund for Poverty Reduction Project and Ministry of Construction and Urban Development.

<sup>b</sup> The JFPR Project will share the expertise of community development specialists (2) being provided by DED to support implementation of the proposed Urban Development and Housing Sector Project.

Source: Asian Development Bank estimates.

**FUND FLOW ARRANGEMENTS FOR JAPAN FUND FOR POVERTY REDUCTION**



DED = German Development Service (Deutscher Entwicklungsdienst), JFPR = Japan Fund for Poverty Reduction, M&E = monitoring and evaluation.  
 Source: Asian Development Bank.

## **IMPLEMENTATION ARRANGEMENTS**

### **A. Project Management**

#### **1. Executing Agency**

1. The Ministry of Construction and Urban Development (MCUD) will be the Executing Agency of the Japan Fund for Poverty Reduction (JFPR) Project.

#### **2. Implementing Agency**

2. The implementation arrangements will be in line with the Urban Development Sector Project (UDSP) with which the JFPR Project is associated. The project implementation unit (PIU) for the JFPR Project will be established within the project management unit (PMU) of the UDSP. The PIU will be headed by a project manager (PM). The PM will guide project implementation, administer the JFPR Project inclusive of reporting to the Asian Development Bank (ADB) and the Government of Mongolia. The PM will work under the supervision of the project director of the PMU for disbursement, procurement, financial management, monitoring and evaluation (M&E), and preparing detailed project implementation plans, annual reports, and quarterly progress reports. The PIU will be supported by one national financial management consultant, and one short-term international M&E consultant. The JFPR Project will also employ one national community participation specialist in each of the project towns. Staff of the PIU will be selected on a competitive basis by MCUD and endorsed by ADB.

#### **3. Project Steering Committee and Technical Working Committee**

3. The project steering committee (PSC) will supervise project activities at the national and project levels. The PSC will comprise representatives from Ministry of Finance, MCUD, local governments, public urban service organizations, and nongovernment organizations (NGOs) working on ger area improvement and community development. The technical working committee (TWC) will be responsible for reviewing the technical, financial, and social aspects of the subproject proposals. The TWC will identify the viable subproject proposals and report to the PSC.

#### **4. NGOs, Community-based Organizations, and Community Involvement**

4. The crux of the proposed JFPR Project is community participation. With support and guidance from community mobilizers in each city, savings groups and community-based organizations (CBOs) will be the key actors responsible for implementing component B of the JFPR Project. They will be actively involved in subproject planning, proposal preparation, decision-making, implementation, operation and maintenance (O&M), and M&E. The CBOs or savings groups will receive funds directly from the PIU to implement their proposed subprojects. They will be responsible for managing the finances and procuring equipment and services for the completion of the subproject. Under component A, local NGOs will be contracted to implement the training, public awareness campaigns, and other capacity-building activities.

#### **5. Flow of Funds**

5. The flow of funds arrangements are summarized in Appendix 3. To facilitate disbursements, an imprest account will be opened at a commercial bank in Ulaanbaatar acceptable to ADB. Disbursement from the imprest account will be supported by an appropriate

withdrawal application and related documentation. Such documentation will demonstrate, among other things, that the goods and/or services were (i) produced and procured from ADB's member countries, and (ii) eligible for JFPR financing. The initial amount to be deposited in the account will not exceed \$100,000. Total advances at any time in the account are not to exceed \$150,000, or the estimated average expenditures for a 6-month period, whichever is less. The statement of expenditures (SOEs) procedure will be used for reimbursing and liquidating eligible expenditures; any individual contract to be reimbursed or liquidated under the SOE procedure will not exceed \$10,000 per payment. The establishment and liquidation of the imprest account and the use of SOE procedures will be in accordance with ADB's *Loan Disbursement Handbook* (2001, as amended from time to time).

6. Disbursement of the imprest fund will be made by the project director of the PMU of the UDSP, directly to the community groups and service providers, upon certification of the contractor's bill by the PM and approval by the PMU. The imprest account will be replenished by ADB based on budget requests prepared by the PM and endorsed by the project director of the PMU. The withdrawal applications will be signed by the project director. In addition, there will be various counterpart contributions in kind from the Government and other key stakeholders.

## **6. Procurement**

7. Procurement under the JFPR Project will be conducted in accordance with ADB's *Procurement Guidelines* (2006, as amended from time to time). Goods and related services estimated to cost the equivalent of \$100,000 or less will be procured using ADB's shopping procedure. Goods and services and civil works with estimated value of \$500,000 or less will be procured using ADB's national competitive bidding (NCB) procedure. The PMU will be responsible for procurement with technical inputs from the PIU and MCUD. To procure items costing below \$10,000, the PMU may purchase the items directly from the supplier. In such cases, ADB should be satisfied that the price paid is reasonable.

8. Before procurement by NCB starts, ADB and the Government of Mongolia will review the Government's procurement procedures to ensure consistency with ADB requirements. Any necessary modifications or clarifications to the Government's procedures will be documented in the procurement plan.

9. CBOs will be responsible for procuring goods and services required to complete their subprojects. They will call for participation of local communities in the delivery of goods and services.

## **7. Consulting Services**

10. The JFPR Project will require a total of about 3 person-months of international and 145 person-months of national consulting services. Consultants will be recruited by the PIU in accordance with ADB's *Guidelines on the Use of Consultants* (2006, as amended from time to time). The consultants will be recruited based on no-objection from ADB. The terms of reference are in Supplementary Appendix B.

## **8. Reporting**

11. The PIU will prepare quarterly and annual reports on project implementation, the form and content of which will be agreed upon with ADB. The PSC will officially endorse these reports to ADB, with comments. The PIU will maintain separate accounts for all project

components financed by the JFPR and the Government and have them audited by an independent auditor that has adequate knowledge of and experience with international accounting practices and is acceptable to ADB. The audit report should include a separate opinion on the use of the imprest account and the SOE procedure. The audited project accounts and the auditor's reports will be submitted to ADB within 6 months after the end of each fiscal year. The Government will be informed of ADB's requirement of the timely submission of audited project accounts and financial statements, including the suspension of disbursements in case of noncompliance. ADB will also finance, through the JFPR Project, annual audits by an independent audit company acceptable to ADB.

12. The Government will provide a project completion report to ADB with the support of the PM, within 3 months of physical completion of the JFPR Project. All reports will comprise an assessment of the project impact and output, project performance M&E, as well as suggestions for further improving project implementation.

## **9. Monitoring and Evaluation**

13. Preliminary indicators for the M&E of the performance of the JFPR Project will be discussed with key stakeholders. The JFPR Project will employ a comprehensive M&E system that includes (i) participatory monitoring undertaken by beneficiaries, (ii) internal M&E by the PIU, and (iii) external monitoring by NGOs and media. The project performance management system will be finalized prior to ADB's approval. At the beginning of project implementation, an international M&E specialist will design frameworks for each of the M&E components.

14. For internal monitoring purposes, baseline data on the social and poverty profiles of the beneficiaries will be collected and confirmed, and these indicators will be measured during project implementation. Comments and findings regarding these monitoring indicators will be included in a semiannual report to ADB. In addition to indicators for monitoring implementation, indicators for project evaluation will be measured at project completion. Where relevant, indicators will be disaggregated by gender. A final report will consist of an evaluation of changes that occurred in the preceding 4 years.

15. The baseline study will include a quantitative assessment of poverty and human development indicators in the project areas. The qualitative assessment will include (i) attitudes toward working together with other community members to attain benefits for the community as a whole; (ii) awareness of social inclusion issues; and (iii) knowledge of community action planning, needs identification and prioritization, project design, including O&M planning. Observations and surveys will be used to collect the data for the baseline, and to monitor and evaluate the achievement of targets.

### **B. Implementation of Component B: Grants for Community-Driven Development Initiatives**

16. Under component B, small grants will be made available to communities on a demand-driven basis for subprojects that include small-scale infrastructure, social services, and productive or income-generating subprojects. Community groups, which include both savings groups and CBOs, will be eligible to apply for subproject grants.

17. The subproject cycle, depicted in Figure A4, includes preparation, appraisal, approval and launch, implementation, M&E, and O&M. The PIU field staff (community mobilizers) will be

responsible for coordinating all aspects of component B in their project towns and guiding community groups through the subproject cycle.

18. The steps of the subproject cycle will be implemented as follows.

### **1. Preparation**

19. Local NGOs will facilitate participatory planning workshops for interested community groups to identify and prioritize community needs. The NGOs will help ensure that the planning process is highly inclusive. The community group or a nominated subproject committee will then develop a proposal and budget for the priority subproject with assistance from the NGOs and community mobilizer. The proposal must include both an O&M plan and an M&E plan, which will require up-front training. In preparation for this stage, community handbooks describing the JFPR Project and detailing the subproject cycle in a user-friendly format will be distributed throughout the community.

### **2. Appraisal**

20. The TWC will conduct a desk and field appraisal of each subproject proposal based on a predefined set of criteria. During the desk appraisal, the TWC will determine whether all relevant information is in the application and if the proposed subproject meets a standard set of transparent criteria, including

- (i) maximum community participation in developing the proposal (i.e., CBO membership will equally consist of men and women);
- (ii) maximum community benefit for male and female beneficiaries;
- (iii) community contribution (cash and in kind);
- (iv) local government contribution (i.e., land, and O&M support);
- (v) O&M plan in place;
- (vi) capacity of the community to implement the subproject; and
- (vii) only communal land that is not occupied or used for residential or productive purposes could be used.

21. Once the application passes desk appraisal, the TWC will conduct a field appraisal, which consists of a social and a technical evaluation. The social evaluation will determine, for example, (i) whether women and vulnerable groups were sufficiently involved in decision-making, (ii) whether the community has agreed to an acceptable plan for mobilizing the community contribution and for settling disputes, and (iii) what types of training are required to implement the subproject.

22. The TWC will then evaluate (i) the technical feasibility of the subproject, (ii) the accuracy of the cost estimates, and (iii) the viability of the O&M plan. The PIU will provide community groups with simple standard designs for typical subprojects to assist the community to meet the technical requirements.

### **3. Approval and Launch**

23. Once a subproject proposal has been approved, the PIU will prepare an approval letter detailing the steps the community group must take prior to implementing the subproject, including (i) types of training required, (ii) opening a checking account, and (iii) mobilizing community contributions. The PIU will prepare a contract with the community group stating the

obligations and responsibilities of the community group and the PIU in implementing the subproject, and detailing the payment terms and schedule. The fund disbursement method to be used for subprojects will be defined in the grant implementation manual.

24. Once the contract is signed by the community group, a visible launch ceremony will be organized for the entire community and local government authorities.

#### **4. Implementation**

25. Local NGOs will develop and deliver the training package on all aspects of subproject implementation—procurement, accounting, financial management, O&M, and M&E—to the community group or selected members of the community group that have been nominated to manage the subproject. The community group will be responsible for procuring services and equipment with community participation.

#### **5. Operation and Maintenance**

26. The training delivered by the NGOs will include modules on technical maintenance as well as financial (i.e., fund raising through contributions, user fees) and social aspects, such as hygiene education. At the beginning of the JFPR Project, the PIU will develop a user-friendly maintenance manual that can be used by community groups to develop a simple maintenance plan for each subproject.

27. Before the subproject is completed, the community group will establish a maintenance fund. The community must determine at the project planning stage how O&M of the subproject will be financed for the next 3–5 years. They may set aside a portion of the community contribution to the subproject as seed money of the maintenance fund. They will also need to determine how they will collect funds in the future. The community group may seek a commitment from the local government to match the group's contribution to the fund. The procedure for establishing the maintenance fund will be defined in the grant implementation manual and options for fund raising will be described in the maintenance manual.

#### **6. Monitoring and Evaluation**

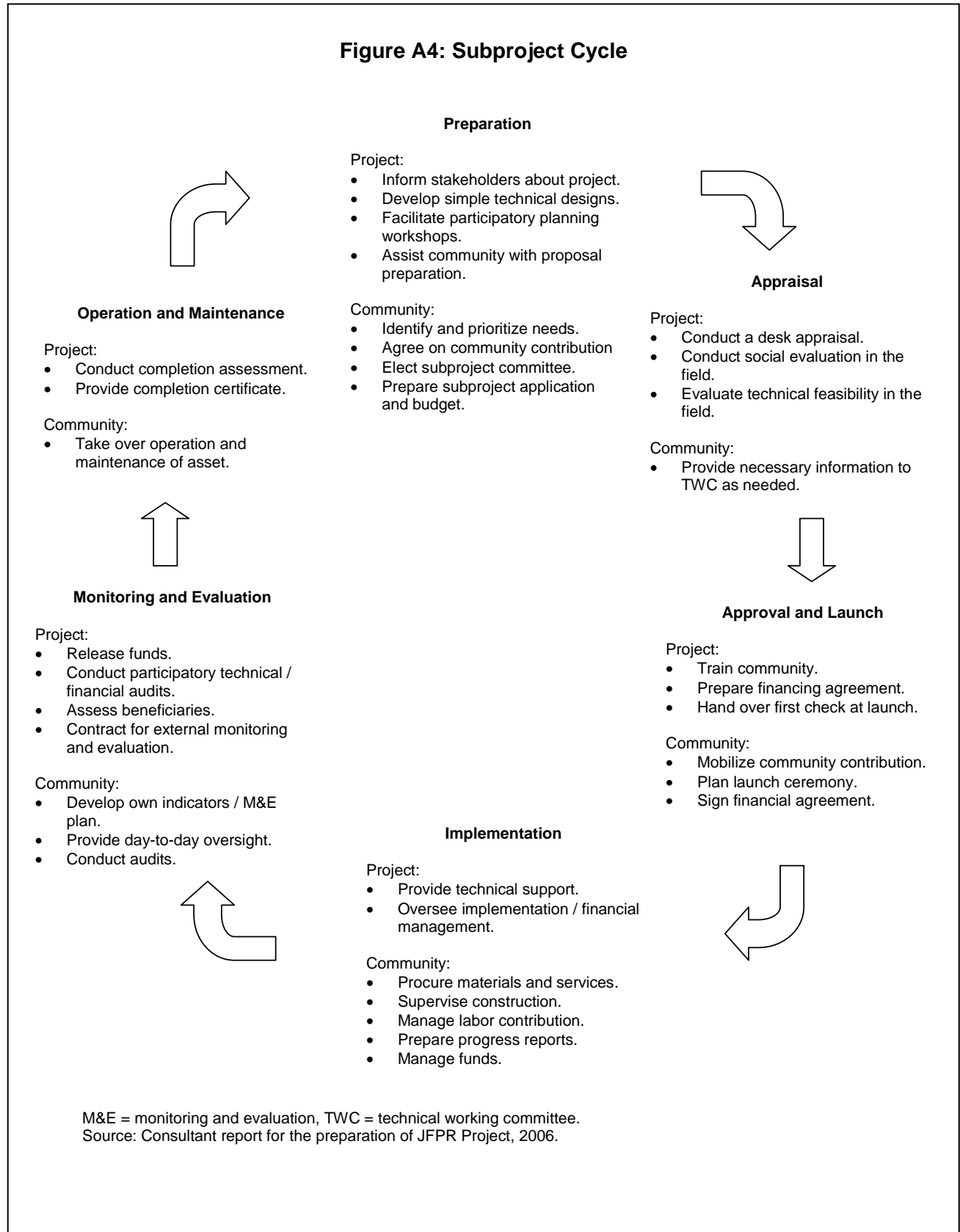
28. A comprehensive M&E system will be established. It will include (i) participatory monitoring undertaken by beneficiaries, (ii) internal M&E by the PIU, and (iii) external monitoring by NGOs and media.

29. The PIU will monitor and review the technical aspects, social aspects, impacts on beneficiaries, and financial aspects of the subprojects. Technical and financial monitoring will be linked so that a comparison can be drawn of the community's expenditure against targets.

30. The NGOs will train community groups to develop their own monitoring indicators and an M&E plan will be provided in the subproject proposal. Subproject accounts will be open and available for inspection by the community and subject to internal and external audits. The community will be engaged through various participatory techniques (e.g., maps, Venn diagrams, and flow diagrams) to determine their level of satisfaction with the subproject, and will be expected to report periodically to the PIU.



**Figure A4: Subproject Cycle**



**C. Implementation Schedule**

31. The JFPR Project will be implemented over a period of 4 years from June 2007 to June 2011. Project preparation is expected to start in June 2007, with the establishment of the PIU and PSC, and hiring of national staff and international consultants. NGOs will be engaged in July 2007 to undertake the primary training and capacity-building activities under component A. A M&E framework will be designed in August 2007. It is expected that the first grants in component B will be disbursed to community groups in January 2009. Grants will be disbursed on an intermittent basis through April 2011.

32. The detailed implementation schedule is in Supplementary Appendix E.