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PROJECT PAPER

ON

PROPOSED ADDITIONAL FINANCING

IN THE AMOUNT OF SDR 0.62 MILLION
(US\$1.0 MILLION EQUIVALENT)

TO

MONGOLIA

FOR THE

RURAL EDUCATION AND DEVELOPMENT PROJECT (READ)

MAY 12, 2008

Human Development Unit
East Asia and Pacific Region

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MONGOLIA

RURAL EDUCATION AND DEVELOPMENT (READ) PROJECT

ADDITIONAL FINANCING

I. Introductory Statement.....	1
II. Background Issues	1
III. Proposed Changes	5
IV. Consistency with CAS	6
V. Appraisal of Scaled-Up Project Activities	7
VI. Expected Outcomes.....	8
VII. Benefits and Risks	9
VIII. Financial Terms and Conditions for the Additional Financing.....	10
Annex 1: Procurement Arrangements for Activities under Additional Financing.....	11
Annex 2: Financial Management and Disbursement Arrangements for Activities under Additional Financing.....	15
Annex 3: Critical Risk Table for Activities under Additional Financing	21
Annex 4: Results Framework and Monitoring for Activities under Additional Financing	22

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MONGOLIA

RURAL EDUCATION AND DEVELOPMENT PROJECT (ADDITIONAL FINANCING)

PROJECT PAPER

EAST ASIA AND PACIFIC

EASHD

Date: May 12, 2008 Country: Mongolia Project Name: Rural Education and Development Project Project ID: P096328			Team Leader: Charles Abelmann Sector Director: Emmanuel Jimenez Country Director: David Dollar Environmental Category: C		
Borrower: Mongolia Responsible agency: Ministry of Education, Culture, and Science Mr. Mishigjav Buurunkhii, Government Building 111, Baga toiruu – 44, Ulaanbaatar, Mongolia Tel: +976-11-260816 Fax: +976-11-323158 Email: mishigjav@mecs.pmis.gov.mn					
Revised estimated disbursements (Bank FY/US\$m)					
FY	FY09	FY10	FY11	FY12	FY13
Annual	1.6	1.1	0.39	0.50	0.10
Cumulative	3.45	3.84	4.40	4.91	5.01
Current closing date: February 29, 2012 Revised closing date: February 28, 2013					
Does the restructured or scaled-up project require any exceptions from Bank policies? Have these been approved by Bank management? Is approval for any policy exception sought from the Board?					<input type="radio"/> Yes <input checked="" type="radio"/> No Not Applicable <input type="radio"/> Yes <input checked="" type="radio"/> No
Revised project development objectives/outcomes: The Project development objectives remain unchanged.					
Does the scaled-up or restructured project trigger any new safeguard policies? No					
For Additional Financing					
<input type="checkbox"/> Loan <input type="checkbox"/> Credit <input checked="" type="checkbox"/> Grant For Loans/Credits/Grants: Total Bank financing (US\$m.): US\$1.0 Million equivalent Proposed terms: 100% IDA Grant					
Financing Plan (US\$m.)					
Source		Local	Foreign	Total	
Borrower		0.0	0.0	0.0	
IBRD/IDA		0.0	1.0	1.0	
Total		0.0	1.0	1.0	

I. Introductory Statement

1. This Project Paper seeks the approval of the Executive Directors to provide an additional IDA Grant in the amount of SDR 0.62 Million (US\$1.0 Million equivalent) to the Government of Mongolia for the Rural Education and Development Project (READ).
2. The proposed additional resources would help finance the costs associated with scaling up activities under READ in rural schools. Specifically, the additional financing would support the distribution of learning materials (customized children's laptop computers with Mongolia-specific educational content) to children in selected pilot rural primary schools, in addition to the training of teachers and students around these materials as well as a rigorous impact evaluation of the pilot. These resources will also examine the role of information technology in improving the overall quality and effectiveness of education.
3. The new closing date of the scaled-up project will be February 28, 2013.

II. Background Issues

4. **Country and sector context.** The Government of Mongolia (GOM) has in recent years worked hard to protect public spending on education and to recover from a drop in enrollments that occurred in the mid-1990s. Education remains a high priority within the Government's overall action plan. The Government Action Plan (GAP) and the Government's Economic Growth Support and Poverty Reduction Strategy (EGSPRS) support strengthening basic education in Mongolia by raising the capacity of education administrators and teachers and fostering competition.

5. The Ministry of Education, Culture and Science (MECS) has developed an Education Sector Master Plan (ESMP2) for 2006-2015. The ESMP2 builds on the General Guideline for Socio-Economic Development of Mongolia for 2006-2008 (GGSEDM). The primary aim of ESMP2 is to establish an accessible and high quality education system that will nourish the intellectual development of Mongolian citizens while supporting the country's economic development. The ESMP2 reflects the work of the Education for All (EFA) Action Plan and reflects an effort to sequence government priorities. In education, there are three main policies: (1) to upgrade education quality at all levels of schooling and produce citizens who can function effectively in a modern market economy; (2) to provide education services that can be accessed by children in all parts of the country, including rural areas, and by poor and vulnerable groups; and (3) to improve the management capacity of central and local educational institutions at all levels.

6. **Project Background, Performance, and Status of Implementation.** The overall objectives of READ are threefold: (i) to assist the GOM in enhancing the quality of education in rural primary schools (grades 1 – 5) by improving students' access to and use of quality learning materials and by improving teachers' skills through the promotion of professional networks; (ii) to strengthen the government's capacity to monitor student

learning through participation in national and international assessments; and (iii) to provide financial and technical support for the management and monitoring of the project. Under the original project, all primary grade classrooms in soum and bagh schools receive grade-specific classroom libraries, and all primary grade teachers in these schools receive training. The existing project also aims to build the policy strength, monitoring, and evaluation capacity of MECS in support of the implementation of Mongolia's Education Sector Master Plan 2005-2015.

7. READ was approved by the Board on May 23, 2006 for a US\$4 Million sector Grant (SDR 2.787 Million equivalent) under IDA 14. The project became effective on August 10, 2006. It is scheduled to close on February 29, 2012, and this additional financing will require extending the closing date by one year.

8. Within its first year, the project has succeeded in putting more than 200 titles of children's books on the market, establishing libraries in all rural schools of 11 aimags, and training hundreds of teachers. The books included in the classroom libraries were chosen through a competitive process that reviewed over 900 manuscripts. The books are included in the International Children's Digital Library. The distributions of books and the provision of training to all rural schools will be completed by September 2008. For the second phase of the project, rural schools will be provided with non-cash vouchers to replace some of the titles in the classroom libraries. An impact evaluation of the classroom libraries is part of the project design, and baseline data was collected in April 2007. Additional data will be collected in April 2008 which will provide information on information and communication technology (ICT) use and children's skills related to listening, reading, writing, and math. The evidence from the ground has shown the tremendous excitement among children, parents and teachers around the libraries, as well as the quality of all the activities that have already taken place around the distributed books. Members of the Ministry are beginning to explore opportunities for project expansion to support reading materials for student in higher grades.

9. As of Quarter 3 of Fiscal Year 2008, SDR 1.54 Million (US\$2.38 Million), or 56%, of the available IDA Grant of SDR 2.79 Million had been disbursed. Project performance to date is proceeding very well, with all time bound actions being met, and is in full compliance with all covenants. The public reception of the project has also been very positive. The project has thus far been rated "Satisfactory" on its implementation and achievement of its development objectives and has met all relevant World Bank disbursement, procurement, and fiduciary obligations; all current and planned activities are within the project's development objectives. The proposed activities also build on the current work of the Ministry to work in a few schools with children having access to the books in digital format, which is part of the original READ project design.

10. **Proposed Additional Financing Activities.** The additional financing would be used to support activities under READ by purchasing children's laptops, i.e. XO laptop computers, a proprietary item produced only by the One Laptop Per Child (OLPC) organization, for READ-participating schools to improve the overall quality and effectiveness of education in rural Mongolia. The XO laptop computer was designed by

OLPC as an educational device to be implemented in developing countries. It is aimed at countries where infrastructure, teachers, and other critical inputs for the education sector are lacking. The machine is sized for children and includes a number of innovations not offered by its competitors. These include open-source software, energy efficiency that accommodates solar or human power, mesh networking which facilitates online peer interaction, and a hermetic seal making it resistant to water and dirt. The OLPC organization is the sole manufacturer and distributor of the XO laptop computer.

11. The OLPC organization shipped its first deployment of XO laptop computers in October 2007. It currently has projects in Mexico, Peru, the United States, and Uruguay, with approximately 435,000 XO laptop computers currently under deployment throughout these countries. In addition, OLPC recently began an initiative in Haiti that is being supported by the Inter-American Development Bank. The World Bank is also supporting a deployment of XO laptop computers in nine primary schools in rural Sri Lanka through the Education Sector Development Project.

12. In October 2007, a Memorandum of Understanding was established between the Government of Mongolia and OLPC to introduce 20,000 XO laptop computers into the country. The initial date of delivery was expected this school year. 10,000 XO laptop computers were procured by the Government of Mongolia, and 10,000 were procured by the OLPC Foundation. 1,000 have already been deployed in two schools in urban areas. 19,000 are being manufactured and are set to be deployed in spring 2008. The Cabinet has added additional resources for this initiative to the state budget.

13. Within this context, the Government of Mongolia has requested additional financing under READ to support the distribution of a new deployment of XO laptop computers with Mongolia-specific educational content to children and teachers in selected pilot READ-participating primary schools. This additional financing will therefore fall under Objective (I) of READ: “to assist the Government of Mongolia in enhancing the quality of education in rural primary schools (grades 1 – 5) by improving students’ access to and use of quality learning materials.” More specifically, the additional financing will support:

- (i) **The procurement of approximately 2,000 XO laptop computers from OLPC:** The procurement of these XO laptop computers will require investments in their purchase, storage, transport and distribution, as well as investments in the implementation of servers, hardware, internet connections, spare parts, and other peripherals. The Government is already working with OLPC in urban areas and is seeking World Bank support to focus on rural schools and bring the experience of the READ project to bear on the implementation of this Government priority. The procurement method will be direct contracting due to the proprietary nature of the XO laptop computers and due to its innovative features that READ will leverage. Direct contracting is justified in accordance to paragraphs 3.6 (b) and (c) of the World Bank’s “Guidelines: Procurement under IBRD Loans and IDA Credits” of 2004, as amended in 2006, as it will be a continuation of an investment choice already

made by the GOM and will leverage this investment related to content and training materials, and the XO laptop computers are proprietary items and only obtainable from one source, i.e. OLPC. The XO laptop computer is also unique in other aspects related to cost, durability, and features (e.g., power usage and screen quality). All software applications are also open source allowing for local modification and adaptation.

- (ii) **The provision of Mongolia-specific educational content on the XO laptop computers through an improved and adapted version of ICDL software:** A Mongolian version of ICDL has already been developed under READ. It includes all the titles selected under READ and can be accessed through the internet or via local servers in a few pilot rural schools. Under this component, investments will be made to improve the readability of ICDL in XO laptop computers and to add other features such as the capability of translation of text into English. The XO laptop computers will be able to access the improved version of ICDL through local servers making the text more readable, which will be supported by the additional financing under component (i). The additional financing will also support supplementary investments in applications that improve the accessibility of XO laptop computers. Because of the existing implementation arrangements with ICDL under READ and because ICDL already has licenses for the READ books to use in this context and have already incorporated those books into the ICDL system, Single Source Selection will be used to procure the Mongolia-specific content integration with the XO laptop computer. Under section 3.10 (a) and (d) of the Bank's Consultant Guidelines, this contract will represent continuation of earlier work under READ, and the ICDL Foundation has unique experience to support this effort.
- (iii) **The training of teachers and students in the successful use of the XO laptop computers to optimize their effect on students' learning:** Technical assistance will be provided to teach the effective use of the XO laptop computers and ICDL both to students and teachers extending the training done already under READ and leveraging the training materials used under the existing OLPC effort. Teachers will also receive training in effective lesson plan design and curriculum integration using the XO laptop computers. This training will support teachers in creating lesson plans that can be enhanced with the use of the laptop's software activities and/or the Internet and also train them in regards to their role on operation and maintenance and troubleshooting. This activity will not be limited to READ-participating schools and will build on the ongoing FTI-funded training of all primary school teachers on information and communication technologies.
- (iv) **The design of an effective monitoring and evaluation system to extract relevant lessons from the pilot and adjust the project design as necessary:** The additional financing will only cover selected pilot rural schools, which will be drawn from the original five pilot aimags that received books and training in May 2007 (four of which are connected to the power grid). To ensure that the training is not a one-off event, and to exploit efficiencies, school clusters will be selected. Selecting clusters of schools from these

aimags will provide the monitoring and evaluation framework with a set of schools with a common experience of having received books and training and where the project team will have two years of baseline data. Under this arrangement, the project team will be able to examine the merits and value added of XO laptop computers on learning as compared to a similar set of schools in the area that do not have XO laptop computers. The monitoring and evaluation will thus be designed so as to be able to evaluate the interventions' impact on teaching and learning. Technical assistance will be provided for designing and implementing the impact evaluation of the pilot, as well as developing the appropriate monitoring tools to ensure that XO laptop computers reach their intended beneficiaries.

14. The additional financing needs amount to US\$1 Million (see below for estimated project costs). Despite full rationalization and prioritization of project activities, and due to the advanced disbursement and commitment rate of the project, currently available resources under READ are insufficient to address the identified demand and request from the Government. The additional resources are intended to enhance the Government's existing investment choice to distribute XO laptop computers from the OLPC organization.

15. **Rationale for Proposed Approach.** The project team considered several possible approaches for financing the project, including a new operation, a Learning and Innovation Loan (LIL), or a repeater project. Additional financing appears to be the optimal instrument in order to maximize cost effectiveness and timeliness in processing. Using additional financing would also enable the scaled up activities to supplement READ's ongoing successful activities. Finally, an additional financing arrangement in accordance with OP 13.20 would leverage the use of the government's existing implementation capacity and utilize the strong existing implementation arrangements for the project.

III. Proposed Changes

16. **Development Objectives and Scope.** The original development objectives of the project are proposed to remain unchanged, as is the project design. The proposed additional financing will complement the original project activities by investing in rural schools. These activities were already appraised at the time of project preparation and approval. The proposed activities under additional financing are expected to be completed by February 28, 2013.

17. **Institutional Arrangements.** MECS will continue to be the principal executing agency for the project, and implementation will continue to be supported by a small Project Management Unit (PMU). The PMU, which is attached to MECS, will monitor and coordinate the implementation of the additional financing. The management of the proposed activities can be accommodated by the existing implementation capacity, led by the Project Coordinator, a Finance Officer, a Procurement Officer, a Project Assistant,

and a translator. The work will be done in coordination with the Department of Basic Education.

18. **Financing Plan.** Table 1 shows the proposed cost estimates and the indicative financing plan for the project components.

Table 1: Estimated Project Costs and Indicative Financing Plan

MONGOLIA: Rural Education and Development Project

Project Cost By Component and/or Activity	Local USD Million	Foreign USD Million	Total USD Million	Estimated Additional Financing USD Million
Improving Teaching and Learning in Rural Schools				
Increasing Availability of Learning Materials	2.12	0.09	2.21	0.70
Promoting Reading through Public Campaigns and Professional Networks	0.52	0.00	0.52	
Improving National Monitoring of Quality and Efficiency				
Strengthening National Assessment	0.23	0.10	0.33	
Improving Efficiency of Child Benefits Development Policy Analysis	0.02	0.00	0.02	
Project Management and Evaluation				0.30
Project Management and Oversight	0.39	0.05	0.44	
Monitoring and Evaluation	0.22	0.03	0.25	
Total Baseline Cost	3.50	0.27	3.77	1.00
Contingencies	0.22	0.01	0.23	0.00
Total Project Costs	3.72	0.28	4.00	1.00
Total Financing Required	3.72	0.28	4.00	1.00

19. **Disbursement.** To facilitate timely project implementation, the PMU would use the ongoing project's Designated Account. The Designated Account would disburse against all eligible project expenditures under the activities financed by these additional resources. The ceiling of the Designated Account will be specified in the Disbursement Letter issued by the Bank.

IV. Consistency with CAS

20. The proposed scaled-up activities are in full support of the current Country Assistance Strategy (CAS) goal of reducing rural-urban disparities. Low levels of educational attainment are key determinants of poverty, while at the same time poverty can be a key factor that limits access to and quality of schooling. Thus, investments in improving educational quality can break the intergenerational transmission of poverty. The Government's EGSPRS has also set as a priority improving the quality and access to basic education services, and in particular meeting the needs of poor and vulnerable groups. The EGSPRS is an important pillar of World Bank support as articulated in the CAS, and the proposed investments in improving educational quality will promote child-

friendly schools and support teachers with professional development and learning materials. Further, the scaled-up activities are fully consistent with the proposed CAS currently being discussed with the Government, one pillar of which focuses on reducing rural vulnerabilities.

V. Appraisal of Scaled-Up Project Activities

21. **Economic.** Rigorous ex-ante cost-benefit analysis does not appear feasible for the kinds of activities proposed under additional financing. However, the economic literature has shown that there are high returns to investing in learning materials at an early age. Research also suggests that the effectiveness of these investments in school inputs is enhanced by training teachers on how to use these resources in the classroom.

22. With specific reference to READ, the proposed activities will have several further benefits. While it is difficult to quantify these benefits (as well as related costs) because of a lack of data, the pilot has the capability to provide evidence of the potential role of this new learning tool to promote and develop positive attitudes to learning as well as a set of “twenty-first century skills” related to critical thinking, information evaluation and reasoning, collaboration, and international awareness, all issues that have been identified as priority areas in the education sector by the Government. Further, where internet access is available, the pilot will provide information as to the whether the use of these XO laptop computers have multiplier effects for intermediaries – in this case teachers – and reduce the isolation of remote, rural teachers and students, and thus raise the quality of their work. The design of deployment will also be done in such a way as to measure not only educational effectiveness of different distribution mechanisms (e.g., such as the sharing of XO laptop computers among several students), but also the costs associated with these different distribution schemes. Finally, by virtue of having the entire ICDL library on the XO laptop computer readily accessible at any given time, a student would not have to borrow books one-by-one physically from the classroom library as often. This is particularly significant in a country with such a low population density as Mongolia.

23. A rigorous ex-post economic analysis will be conducted as part of the monitoring and evaluation of the pilot and has been budgeted under the additional financing. This monitoring and evaluation will analyze the potential impact of the XO laptop computers on knowledge dissemination, effective learning, and the development of more efficient education services, all issues requiring a greater evidence base than is currently documented in the literature. The analysis will ultimately help the Government assess the net economic benefit of its entire ICT strategy, including the procurement of other XO laptop computers.

24. **Financial.** The additional financing should not incur any financial difficulties for the Government. The payment of any associated fees and/or commitment charges for the Grant should not pose any hardship, given the revenues from mining taxation and the strong domestic resources available to the Government.

25. **Institutional.** The successful performance of READ to date is strong justification for using the existing organizational structures for the additional financing, which have been described above.

26. **Fiduciary.** The existing PMU would continue to have overall coordinating responsibility for the financial management aspects of implementation with oversight provided by the existing READ Steering Committee (SC). The PMU systems and controls include project accounting, financial reporting, management of flow of funds, staffing, internal controls, and auditing arrangements. The PMU will continue to submit interim unaudited financial reports to the World Bank as part of the Financial Monitoring Reports. The annual audit report of READ will include the activities under additional financing and will be made available to IDA within six months of the close of the recipient's fiscal year.

27. **Social.** The activities under additional financing will focus on rural bagh and soum schools. As a result, they will improve some of the educational inequities between rural and urban schools through teacher development and improved access to learning materials. They will also extend the existing OLPC effort underway in Mongolia which is targeted to urban schools to allow for experience serving rural students.

28. **Environment.** The project raises no specific environmental or other safeguard issues. The design of the XO laptop computer complies with the European Union's directive on the "Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment" (RoHS). The original project has been rated category C, and no Environmental Management Plan is necessary. There are no civil works supported under the additional financing.

VI. Expected Outcomes

29. As stated, the original development objectives of the project are proposed to remain unchanged, and the outcome and output indicators proposed in the original appraisal are to be maintained. The proposed additional financing will complement the original project activities. Specifically, the activities supported by the additional financing are expected to contribute to the original project objective of improving access to and use of learning materials by using technology. Students will be able to access the ICDL library through the XO laptop computers rather than having to visit the classroom physically. In areas where there is internet access, students will have the potential to access broader knowledge. Moreover, teachers and students will be able to enhance the teaching of the curriculum by providing students with access to additional learning material.

30. In the context of these expected benefits, new indicators will be included in the Financing Agreement to monitor outputs that are specific to the proposed additional financing. While a full list of indicators is described in Annex 4, selected indicators to be added include:

- Approximately 1,800 students in selected rural bagh and soum primary schools that benefited from laptops connected to servers and with the improved and adapted Mongolian version of ICDL software installed.
- Approximately 200 teachers in selected rural bagh and soum primary schools that received integrated training in effective use of laptops and ICDL software including basic hardware and software troubleshooting.
- Approximately 5 hours of usage per week on XO laptop computer by students for classroom-related activities and exploration.
- Approximately 5 hours of usage per week on XO laptop computer by teachers for classroom-related activities.

VII. Benefits and Risks

31. Since OLPC emphasizes child ownership of the XO laptop computer, several issues emerge that will have to be addressed by the Government to ensure the effective deployment of these learning materials. First is the issue of sustainability. While OLPC envisions the procurement of XO laptop computers as a recurrent expenditure (every year, each new second-grader will receive an XO laptop computer), the Government of Mongolia must place this investment within its long-term investment priorities for the education sector: the Government must decide whether this will only be a one-time investment or part of its core educational expenditures. The World Bank has received a commitment from MECS that this initiative will be a long-term investment. Currently, the Ministry is looking to secure additional resources for this project through the state budget as well as the Mongolia Development Fund. MECS is also examining the cost-effectiveness of different distribution schemes (e.g., sharing XO laptop computers among students). The country team and sector unit did not support the Government's request for retroactive financing as the team did not feel the current PMU was prepared to implement prior to the full development of the proposal for additional financing. The team in consultation with the Sector Anchor does feel there is added value by the additional financing to bring Mongolian content to the XO laptop computer and put in place a plan to evaluate this innovative activity.

32. Second, accountability and oversight mechanisms to ensure that the laptops reach and remain with their intended beneficiaries will need to be maintained. A covenant on the plan for deployment and an impact evaluation that are acceptable to IDA will be established. Further, in order to promote active use, MECS plans to issue a decree that the use of XO laptop computer should be integrated into all subjects. The PMU has experience with the delivery of learning materials and verification of use from the existing project. The PMU also has experience using public media as an accountability tool.

33. Third, the project builds on an existing relationship between the OLPC Foundation and the Government of Mongolia. Recently, OLPC has restructured its management team, with the CEO resigning, as it scales up its operations. While this restructuring may reflect short-term changes in the OLPC organization, the risk is not

high, and the project team expects the commitment of OLPC to its ongoing relation with Mongolia to continue.

34. Fourth, since the software of the XO laptop computer is a “beta” version, is dependent on the operation of school servers, and is constantly being updated, there is a risk that the software itself will not work effectively. To mitigate this risk, spare parts for the XO laptop computers will be provided to schools and IT staff in aimags will be trained on effective use and operation and maintenance of the XO laptop computers.

35. Finally, the investment under additional financing could be associated indirectly with the on-going effort to deploy 20,000 XO laptop computers this spring. The World Bank is not supervising this ongoing effort and cannot ensure the quality of the Government’s management of this deployment. To distinguish the activities under additional financing from this initial Government investment, the PMU will leverage existing project’s media strategy. Nevertheless, the project team hopes and expects the investment to bring Mongolian content to the existing effort and enhance the Government’s existing initiative.

36. The project team is in dialogue with the Government of Mongolia on these issues. During appraisal, the project team examined these risks and also reviewed OLPC’s previous experience in adapting their projects to local environments. Furthermore, the Bank’s Sector has agreed to work to mobilize resources outside of the additional financing to support the impact evaluation effort. Moreover, to mitigate risks and ensure effective implementation, each school will have a training manager and prepare quarterly progress reports to the PMU. The PMU will also visit project sites frequently and be in regular communication with each school.

37. Despite these risks and considering the measures by which they will be addressed, the project team believes that the initiative should be financed and implemented because of the added value of the project. In particular, the benefits of the project are myriad: the additional financing will contribute Mongolian-specific content to the XO laptop computers; the open-source nature of the XO laptop computer can encourage the Government of Mongolia to create more Mongolian content; the project will capitalize on Mongolian students’ interest in using technology (a finding from initial feedback from the existing READ project); the World Bank will be able to learn a great deal about this innovation and its effects on student learning; and the project will help the Government learn more about how to use ICT, including information on appropriate implementation architecture and efforts of Ministry, to enhance the educational impact of READ and other educational projects.

VIII. Financial Terms and Conditions for the Additional Financing

38. The additional financing of US\$1 Million would be provided by an IDA Grant on the same terms applicable for the original operation. The terms of the Grant will be standard.

Annex 1: Procurement Arrangements for Activities under Additional Financing

A) General

1. Procurement for the proposed project would be carried out in accordance with the World Bank's "Guidelines: Procurement under IBRD Loans and IDA Credits" of 2004 as amended in 2006; and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" of 2004, as amended in 2006, and the provisions stipulated in the Legal Agreement. The general descriptions of various items under different expenditure categories are described below. For each contract to be financed by the additional resources, the different procurement methods or consultant selection methods, estimated costs, prior review requirements, and time frame are agreed between the Borrower and the Bank project team in the Procurement Plan. The Procurement Plan will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

2. **Procurement of Works:** No civil works would be required and financed under the Additional Financing (AF) for this READ Project.

3. **Procurement of Goods:** Goods procured under this AF would include: XO laptop computers, supporting peripherals, and computer servers.

Direct Contracting: Procurement of XO laptop computers, peripherals, and supporting servers will be carried out following the Direct Contracting procedure as XO laptop computers are considered equipment of a proprietary nature and can be obtained only from one source as specified in Paragraph 3.6 of the Procurement Guidelines.

Shopping: Any contract for goods with a cost estimate of less than US\$100,000 equivalent per contract would be procured under the Shopping procedure as specified in Paragraph 3.5 of the Procurement Guidelines.

4. **Procurement of non-consulting services:** The project would be required to finance contracts for transportation and deployment of XO laptop computers.

Shopping: Any contract for non-consulting services with a cost estimate of less than US\$100,000 equivalent per contract would be procured under Shopping procedures as specified in Paragraph 3.5 of the Procurement Guidelines.

5. **Selection of Consultants:** The consulting services would include improving the readability of ICDL in XO laptop computers, the training of teachers and students in use

of these computers, the design of an effective monitoring and evaluation system, as specified in the Project Paper.

Single Source Selection: Uploading of ICDL in XO laptop computers will be carried out following the Single Source Selection method as only one firm is qualified to deliver the services, (cf: Paragraph 3.10 (d) of the Consultant Guidelines).

Selection of Consulting Firms: Most consulting services contracts to be provided by firms are estimated under US\$100,000 equivalent per contract. The Selection Based on Consultants Qualifications (CQ) method would be used for these contracts in conformity with Paragraph 3.7 of the Guidelines.

Selection of Individual Consultants: Individual consultants would be selected and awarded in accordance with the provisions of Paragraphs 5.2 through 5.3 of the Consultants Guidelines. Under the circumstances described in Paragraph 5.4 of the Consultants Guidelines, individual consultants may be selected and awarded on a sole-source basis, subject to the Bank's prior approval.

6. **Operational Costs:** A total of about US\$33,000 (subject to change) would be required for the project operational cost. These costs are largely related to logistical costs for workshops and other miscellaneous activities.

B) Assessment of the Agency's Capacity to Implement Procurement

7. Procurement activities will be carried out by the Ministry of Education, Science, and Culture (MECS). The agency established the Project Management Unit (PMU) and it would be responsible for the daily functions of project coordination. Procurement activities would be carried out by MECS through its PMU.

8. An assessment of the capacity of the Implementing Agency to implement procurement actions for the project has been carried out by the World Bank Ulaanbaatar office in December 2005. The assessment reviewed the organizational structure for implementing the project and the interaction between the project's staff responsible for procurement and the Ministry's relevant central unit for administration and finance.

9. Most of the issues and/or risks concerning the procurement component for the implementation of the project were identified during the initial project preparation and included the need to have experienced procurement staff in the PMU and the need for a Project Implementation Manual (PIM). The PMU has gained experience under READ to date and has implemented a large part of the major activities under the initial procurement plan. The corrective measures were undertaken since the start of the READ project in June 2006, and there have been no significant procurement issues to date. The overall project risk for procurement is AVERAGE.

C. Procurement Plan

10. The Borrower, at appraisal, developed an initial Procurement Plan for project implementation which provides the basis for the procurement methods. This plan has been prepared and discussed during Appraisal between the Borrower and the Project Team, with final agreement to be reached before the Board Date. It will be available at the PMU/Ministry of Education, Science, and Culture and in the project's database and on the Bank's external website. The Procurement Plan will be updated in agreement with the project team annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

11. All Goods, Learning Materials, and Consulting Services, including those procured under direct contracting, will be subject to the following prior review thresholds:

Abbreviations:

ICB	International Competitive Bidding
Shopping	Procurement method as specified in article 3.5 of the Bank's Procurement Guidelines
Direct contracting	Procurement method as specified in article 3.6 of the Bank's Procurement Guidelines
QCBS	Quality- and Cost- Based Selection
QBS	Quality-Based Selection
CQS	Selection Based on the Consultants' Qualifications
SSS	Single-Source Selection
LCS	Least-Cost Selection
IC	Selection of Individual Consultants

Procurement Method	Threshold	Prior Review Threshold
Goods (except learning materials)	ICB	≥US\$100,000
	Shopping	<US\$100,000
Learning Materials	ICB	≥US\$100,000
	Shopping	<US\$100,000
	Direct contracting	Contracts for procurement of copy rights, royalties, as well as software and printed copies of books, meeting the requirements of article 3.6 of the Procurement Guidelines.
Consulting services ^{1/}	QCBS	≥US\$100,000
	QBS	Assignments which meet para. 3.2 of the Consultant Guidelines.
	CQS	<US\$100,000
	SSS	assignments meeting the requirements of paragraphs 3.10-3.12 of the Consultant Guidelines
	LCS	All assignments for auditing PMU accounts, regardless contract value
	IC	Assignments meeting the requirements of Para. 5.1 and 5.3 of the Consultant Guidelines

Notes: 1) Short lists composed entirely of national consultants: Short lists of consultants for services estimated to cost less than USD 100,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

D. Frequency of Procurement Supervision

12. In addition to the Bank's prior review, the original capacity assessment of the Implementing Agency recommended at least one supervision mission per year to visit the project to carry out ex-post reviews of procurement actions. This will be maintained.

Annex 2: Financial Management and Disbursement Arrangements for Activities under Additional Financing

Introduction

1. The Financial Management team has conducted an assessment of the adequacy of the financial management system surrounding the proposed additional \$1.0 Million (equivalent) additional financing for the Mongolia Rural Education and Development Project (READ). The financial management arrangement surrounding the existing project was previously assessed and deemed acceptable in January 2006. The assessment, based on guidelines issued by the Financial Management Sector Board on November 3, 2005, has concluded that the project meets the minimum Bank financial management requirements, as stipulated in BP/OP 10.02. In the FM team's opinion, the project continues to have acceptable financial management arrangement in place for implementing the operation and providing reasonable assurance that the proceeds of the IDA additional financing will be used for the purposes for which the resources were given. Financial management risk is the risk that World Bank Grant proceeds will not be used for the purposes intended and is a combination of country, sector and project specific risk factors. Taking into account the risk mitigation measures proposed under the project, the FM risk rating proposed for this project at this stage is Moderate.

2. The additional financing for the project is an IDA Grant. The additional IDA proceeds will flow from the Bank into the project's existing designated account (DA) and managed by the existing Project Management Unit (PMU) of Ministry of Education, Culture and Science (MECS).

3. No outstanding audits or significant audit issues exist with any of the implementing entities involved in the proposed project. However, the project team will continue to be attentive to financial management matters during project supervisions.

Audit Arrangements

4. The Bank's audit requirement will not change due to the additional resources. The additional financing will be included in the project financial statements. The Bank requires that project financial statements be audited in accordance with standards acceptable to the Bank. In accordance with other Bank financed projects in Mongolia; Mongolia (GOM) will appoint an independent external auditor, acceptable to the Bank, to conduct annual audits of the project accounts in accordance with International Standards on Auditing, under terms of reference satisfactory to the Bank. The audit will be financed from the proceeds of the resources. The auditors will: (a) express an opinion on the annual financial statements; (b) determine whether the Designated Accounts have (i) been correctly accounted for, and (ii) been used in accordance with the financing agreements; and (c) determine the adequacy of supporting documents and controls surrounding the use of Statement of Expenditures (SOEs) as a basis for disbursement. The auditors will also furnish a separate Management Letter, which will: (a) identify any

material weakness in accounting and internal control as well as asset management; (b) report on the degree of compliance of financial covenants of the Grant and Project Agreements; and (c) communicate matters that have come to the attention of the auditors which might have a significant impact on the implementation of the project.

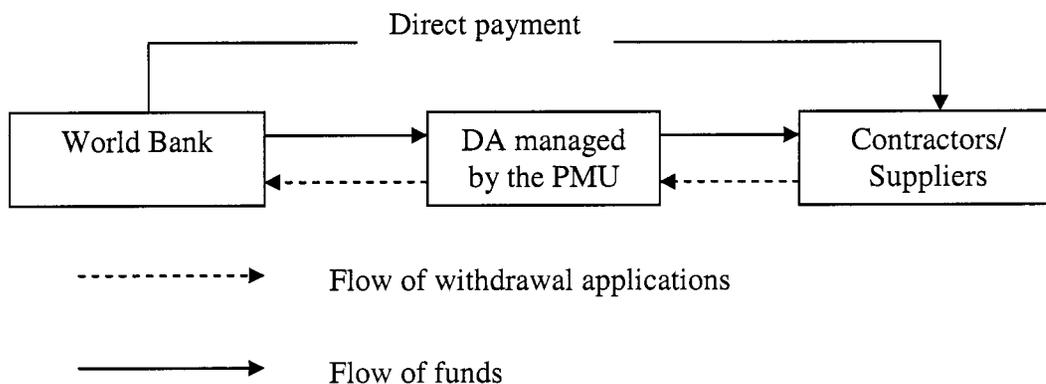
5. The annual audit report of the project financial statements will be due to the Bank within 6 months after the end of each calendar year. This requirement will be stipulated in the Financing agreements. The responsible entity and timing is summarized below:

Component	Submitted by	Due date
Project financial statements	PMU	June 30 of each calendar year

Disbursement Arrangements

6. Four disbursement methods: advance, reimbursement, direct payment and special commitment are available for the additional financing. The supporting documents for disbursement will be statement of expenditures (SOE) or records like contracts and invoices. The use of SOE continues to be in line with procurement post review threshold for the existing project.

7. The existing Designated Account (DA) will continue to be used for this additional financing. The DA would disburse against all eligible project expenditures under the activities financed by this additional financing. The ceiling of the DA will be specified in the Disbursement Letter issued by the Bank. Funds flow for the additional financing proceeds will keep the same as the existing project as follows:



8. The proceeds of the additional financing would be disbursed against eligible expenditure categories as shown in the table below.

Category	Amount of the Grant Allocated (expressed in SDR)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Goods	310,000	100%
(2) Consultancy Services	210,000	100%
(3) Training	80,000	100%
(4) Incremental Operating Costs	20,000	100%
TOTAL AMOUNT	620,000	

Financial Management and Reporting Arrangements

Risk Assessment and Mitigation

The following risks with corresponding mitigating measures have been identified during the assessment:

Risk	Risk Rating before Mitigating Measures	Risk Mitigating Measures Incorporated into Project Design	Risk Rating after Mitigating Measures	Condition of Negotiations, Board or Effectiveness
Inherent Risk				
<ul style="list-style-type: none"> Country level 	High	Maintain Ring-fenced arrangements for the project.	Moderate	N/A
<ul style="list-style-type: none"> Entity Level 	High	The existing PMU of MECS, which has been implementing the existing project for more than one year, will continue to be responsible for managing these additional resources.	Moderate	N/A
<ul style="list-style-type: none"> Project level 	Moderate	Sound project financial management system has been in place. The activities financed by the additional financing are	Moderate	N/A

		mainly procurement of computers and the activities are relatively simple.		
Control Risk				N/A
• Budgeting	Moderate	The project cost table has been prepared to include this additional financing. The existing financial plan will be updated to incorporate the timing of project activities financed by the additional resources.	Moderate	N/A
• Accounting	Moderate	The existing financial management manual (FMM) under the project has been updated to reflect the additional financing.	Moderate	N/A
• Internal Control	Moderate	a) Proper authorization for payment request and segregation of duties has been set up within the PMU. b) Effective and efficient delivery mechanism and controls over the procurement of laptops will be established.	Moderate	N/A
• Funds Flow	Moderate	a) Good arrangement in place for funds flow for the project (See flow of funds below). b) Appropriate approval for withdrawal application by the representatives from MOF and MECS.	Low	N/A
• Financial Reporting	High	a) The PMU has adopted the FMR format as agreed with the Bank. b) The PMU has provided reasonable mechanism and guidance for reporting of physical and financial progress.	Moderate	N/A
• Auditing	Moderate	Appoint an independent audit firm, with proper terms of reference and acceptable to the Bank.	Moderate	N/A

Therefore, the overall FM risk-rating of this project, taking to account of this additional financing and the mitigating measures, is Moderate. The FM team will closely monitor the project FM risk during project implementation.

10. **Strengths.** The Project Steering Committee (PSC) at the MECS has extensive experience in implementing multilateral financed projects from ADB, Nordic Development Fund and the Government of Japan. The PMU, who will manage the additional financing, has been managing the existing Bank’s project for more than one year and accumulated experiences on the disbursement and financial management of Bank financed project.

11. **Weaknesses and Action Plan** Although a financial management manual (FMM) has been adopted by the PMU for the existing project, it still needs to be updated for the additional financial management procedures required for the additional financing. In order to satisfy the Bank’s minimum financial management requirements, the following action plan has been identified to address the weakness:

Significant weaknesses	Action	Responsible person	Completion Date
The current FMM does not include control procedures for the additional financing	The FMM should be updated to include the financial management over the additional financing.	PMU	May 15, 2008

Implementing Agencies

12. The institutional arrangement for this project, taking to account of this additional financing, will remain unchanged. The existing PMU will continue to manage the existing project. The PMU is headed by a Project Implementation Coordinator (PIC) and includes a Finance Officer, a Procurement Officer, a Project Assistant and a translator.

Budgeting

13. In accordance with cost table prepared for the project, including the additional financing, the PMU will prepare an annual work plan and budget which will identify the detailed project activities to be undertaken and the role of different parties in implementation under these additional resources.

Accounting

14. The administration, accounting, and reporting of the project will be set up in accordance with Bank requirements by August 15, 2008. The Bank requires borrowers to prepare financial statements in accordance with acceptable accounting standards. The Bank does not mandate a format of annual financial statements. However, where a

borrower prepares financial statements on a cash basis, the Bank encourages the adoption of formats laid out in Cash Basis International Public Sector Accounting Standards (IPSAS), Financial Reporting under the Cash Basis of Accounting. The PMU will adopt the cash basis of accounting for its preparation of the financial statements. Consistent with IPSAS requirements, the financial statements will include the following:

- Balance sheet;
- Statement of receipts and expenditures;
- Accounting policies adopted and explanatory notes;
- Designated account statement.

15. All accounting documents and files including contracts will be kept and maintained by the PMU and made available upon request during supervision missions and audit activities carried out by independent audit firm.

Internal Control and Internal Auditing

16. There is no independent Internal Audit department within the education sector and for the project. However, this will not impact the project's financial management as the PMU management and monitoring and yearly external audits will serve as the mechanism to ensure that financial management controls are functioning appropriately.

Financial Reporting

17. The format and content of interim financial report has been agreed with the PMU under the existing project. The PMU will continue to prepare the interim financial reports as part of the FMR and submit to the Bank for review on a quarterly basis (prior to May 15, August 15, November 15, and February 15 of each calendar year). Such report will include the financial results of all funding sources for this project.

Conditionality

18. No specific financial covenants are applicable to the project except for those standard financial covenants like project audit and interim financial reports.

Supervision Plan

19. The supervision strategy for this project is based on its FM risk rating, which will be evaluated on regular basis by the FMS and in consultation with relevant task team leader.

Annex 3: Critical Risk Table for Activities under Additional Financing

Risk	Risk Rating before Mitigating Measures	Risk Mitigating Measures	Risk Rating after Mitigating Measures
<ul style="list-style-type: none"> Sustainability 	Moderate	a) MECS has committed that this initiative will be a long-term investment. b) Ministry is looking to secure additional resources for this project through the state budget as well as the Mongolia Development Fund. c) MECS is also examining the cost-effectiveness of different distribution schemes (e.g., sharing XO laptop computers among students).	Moderate
<ul style="list-style-type: none"> Accountability and Oversight 	Moderate	a) MECS has committed to issue a decree that the use of XO laptop computers should be integrated into all subjects. b) Each school will have a training manager who will provide quarterly reports to the PMU. c) The PMU will conduct frequent site visits and communicate regularly with pilot schools. d) The PMU will also continue to use public media as an accountability tool.	Moderate
<ul style="list-style-type: none"> Continuity within OLPC Foundation 	Moderate	OLPC has committed that its engagement with Mongolia will be long-term.	Moderate
<ul style="list-style-type: none"> Malfunction of the XO laptop computer software 	Moderate	a) Spare parts of the XO laptop computer will be provided. b) IT staff in aimags will receive operation, maintenance, and troubleshooting training.	Low
<ul style="list-style-type: none"> Indirect and Unintended Association with Separate Deployment of 20,000 XO Laptop Computers 	Moderate	PMU will leverage existing project's media strategy to distinguish the activities under additional financing from initial Government investment.	Moderate

Annex 4: Results Framework and Monitoring for Activities under Additional Financing

MONGOLIA: Rural Education and Development Project

Results Framework

PDO	Project Outcome Indicators	Use of Project Outcome Information
<p>Assist the Recipient in enhancing the quality of education in rural primary schools, grades 1-5, by improving students' access and use of quality learning materials and improving teachers' skills through promoting professional networks.</p>	<p>Students in bagh and soum primary schools will increase their reading time in class and demonstrate improvements in their literacy and skills.</p>	<p>Assessment of project impact on literacy and reading practices.</p>
Outputs	Output Indicators	Use of output monitoring
<p>The procurement of children's laptops from OLPC The provision of Mongolia-specific educational content on the children's laptops through an improved and adapted version of</p>	<p>Number of students in in selected rural bagh and soum primary schools that received laptops connected to servers and with the improved Mongolian and adapted version of ICDL software installed.</p>	<p>Monitoring of project progress. Timely identification of project components or subcomponents areas that may need special attention,</p>

<p>revisions and/or support.</p>		
<p>ICDL software.</p> <p>The training of teachers and students in the successful use of XO laptop computers to optimize their effect on student's learning.</p> <p>The design of an effective monitoring and evaluation system to extract relevant lessons from the pilot and adjust the project design as necessary.</p>	<p>Number of teachers in selected rural bagh and soum primary schools that received integrated training in effective use of XO laptop computers and ICDL software including basic hardware and software troubleshooting.</p> <p>Classroom teaching practices in selected rural bagh and soum reflect enhanced knowledge in reading instruction and use of XO laptop computers and ICDL as learning materials.</p> <p>Completion of baseline and follow-up of teacher and classrooms surveys.</p> <p>Completion of baseline and follow-up assessments of students in terms of literacy, math, ICT skills and behavioral skills (critical thinking, discipline, motivation, etc).</p>	<p>Results can be used to monitor the progress of the project and ultimately evaluate the impact.</p>
<p>Intermediate Outputs</p> <p><i>Component 1: Improving Teaching and Learning in Rural Schools</i></p> <p><i>Sub-component 1.1.a : Increasing the Availability of Learning Materials by providing XO Laptop Computers with ICDL software installed.</i></p>	<p>Intermediate Outcome Indicators</p> <p>Number of hours per teacher a week that teachers use the XO laptop computers for planning and designing class related activities.</p> <p>Number of hours per teacher a week that teachers use ICDL for in-class activities.</p> <p>Number of hours per teacher a week that teachers use the XO laptop computers for non-academic activities related to school work (assessing students, e.g.).</p> <p>Number of hours per teacher a week that teachers use the XO laptop</p>	<p>Use of outcome monitoring</p> <p>Inform project report.</p> <p>Inform mission supervisions reports.</p> <p>Timely identification of areas where project faces risks and difficulties and requires additional support.</p>

	<p>computers for non-class related activities but for their own activities.</p> <p>Number of hours a week of laptop and/or ICDL use in basic subjects.</p> <p>Number of hours per student a week that students effectively use the laptops and ICDL for school related work.</p> <p>Number of hours per student a week that effectively use the XO laptop computers and ICDL for non-school related work (outside school hours).</p> <p>Number of students (hours a week per student) that reported shared-used of XO laptop computer/ICDL with their family.</p>
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