I. Project Context

Country Context

1. Mongolia is a vast land-locked country with one of the lowest population densities in the world. Located between Russia and China on the eastern part of the Eurasian continental plate, Mongolia’s territory measures nearly 1.6 million km², with only 2.8 million inhabitants. Mongolia’s population density averages 1.7 inhabitants per km². However, the majority of the population lives in urban areas, and the capital city Ulaanbaatar and its periphery are estimated to host close to half of the country’s population. Mongolia is going through a period of transformation and rapid economic growth as world class mineral deposits are mined. The economy, which traditionally has been based on semi-nomadic herding with a largely rural population is going through a profound shift, with several major mining projects which have quickly surpassed the livestock sector as the major driver of the economy. In 2012, Mongolia’s GDP grew by 12.3 percent. Double digit growth is forecast for many years to come making Mongolia one of the fastest growing economies in the world and an attractive destination for foreign investment. Large multiplier effects on related sectors can be expected, particularly infrastructure, transport and utilities. The challenge for the country is how to use the mining revenues to generate sustainable and inclusive growth.
Sectoral and institutional Context

While the mining-driven economy expands, rural areas are in danger of being left behind. Poverty rates are significantly higher among the population in rural areas (35 percent of households below the poverty line in 2012) than in urban centers (23 percent). While the overall rate of poverty in rural and urban areas has dropped considerably during the 2000s (the proportion of people living below the national poverty line has been almost halved between 2002 and 2008 when a consistent methodology is applied), the persistence of high poverty rates suggests that development challenges in rural areas in particular are still present. These challenges can be summarized as follows:

(i) Mongolia is one of the most sparsely populated countries in the world, making the provision of adequate and good quality services, infrastructure and communication challenging and costly. Further, as much of the rural population is engaged in semi-nomadic herding, often living far from settlements, there are additional challenges in outreach of services;

(ii) economic opportunities are largely restricted to the livestock sector and within this sector, largely restricted to extensive forms of production. This is generally a high risk, low output system, with declining productivity, volatile prices, and generally weak supporting services.

(iii) the extensive livestock sector is dependent upon access to pastureland, and the current open access system has led to over-stocking, over-grazing and the degradation of this resource base. The system is also highly vulnerable to the severe climate characterized by harsh, cold winters, which can cause high rates of livestock mortality (dzud).

(iv) economic diversification is limited owing to lack of viable opportunities outside of the livestock sector. Low access to business support services and poor business skills also limit entrepreneurship and, while the micro-finance sector is active with near nationwide coverage, the cost of finance remains quite high.

It was against this background that the Sustainable Livelihoods Program (SLP) was conceived. The SLP was designed as a three-phase Adaptable Program Loan to firstly test new and innovative approaches to livelihood support emphasizing local participation and empowerment and the provision of technical support and services (Sustainable Livelihoods Project (P067770)), then to scale these up to nationwide coverage (Second Sustainable Livelihoods Project (P096439).

Additional financing was approved on May 10, 2011 and the project closing date extended to June 30, 2013

Performance under the Program has been good. The first phase of the Program (SLP1) closed in 2006. The project successfully demonstrated new approaches to livelihood support, focusing on rural areas, with the establishment of community development funds, the Microfinance Development Fund (MDF) and support for Pastoral Risk Management (PRM). The ongoing second phase of the Program (SLP2) has taken and further developed and improved these approaches and rolled the program out nationwide. A critical aspect of the Program is to engage at the policy and institutional level to promote the approaches demonstrated under the Program and for these to be formally adopted and mainstreamed by the relevant authorities. As the Program moves forward, it has increasingly contributed to the development of a policy and institutional framework and reform process, which will ultimately be the major contribution of the Program.

At the core of the Program is the increased responsibility for local communities and their authorities to direct local development and this has been demonstrated nationwide during the second phase. The Bank has engaged in this agenda and brought the possibilities for greater decentralization to the attention of policy makers (Government, Parliament and the President's office). This culminated in
December 2011, when Parliament passed the Integrated Budget Law (IBL), a major reform of public budgetary and expenditure system. The law includes fiscal decentralization with far greater responsibility placed at the local level. Of particular relevance to the Program was the inclusion of a new mechanism for transferring capital budget to the Soum (county) level via Local Development Funds, which have largely been modeled on the community initiative funds developed and rolled out under SLP. Furthermore, the Law requires community participation in the selection of local priorities. This is a major step forward in the institutionalization of the approached demonstrated under SLP, though putting this into operation will be a major task.

II. Proposed Development Objectives
The primary objective is to strengthen the understanding and capacity of local government administrative structures in implementing the Integrated Budget Law. Specifically, the project would enhance the skills of aimags’ and soums’ local government offices and community members to:
(i) prepare annual budgets in a participatory manner with local communities in accordance with the IBL;
(ii) ensure procurement competency of trainees is consistent with their procurement responsibilities

III. Project Description
Component Name
Component 1. Preparation of Training Manuals. The aim of this component is to develop manuals to be used in the training program.
Comments (optional)
The aim of this component is to develop manuals to be used in the training program. The project will therefore support the services of consultants to prepare training modules for

Component Name
Component 2. Awareness Creation and Skills Development
Comments (optional)
The aim of this component is to create awareness among the generality of the people of Mongolia and build the skills set of relevant agencies and individuals to implement the IBL.

IV. Financing (in USD Million)

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<thead>
<tr>
<th>Component Name</th>
<th>Component 1. Preparation of Training Manuals</th>
<th>Component 2. Awareness Creation and Skills Development</th>
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<td>Total Bank Financing:</td>
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<td>For Loans/Credits/Others</td>
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<td>Mongolia - Free-standing Trust Fund Program</td>
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V. Implementation
The implementing entity will be the Ministry of Finance given its leading role in the decentralization policy reform process. The existing institutional structure for the management of the Sustainable Livelihoods program - the SLPO, will be responsible for the day to day implementation including monitoring, financial management and procurement of the activities
supported by the proposed Project. MoF will assume overall responsibility for coordinating and overseeing implementation including guidance on policy related matters.

VI. Safeguard Policies (including public consultation)

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<th>Safeguard Policies Triggered by the Project</th>
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<tbody>
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<td>Environmental Assessment OP/BP 4.01</td>
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<td>Projects in Disputed Areas OP/BP 7.60</td>
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Comments (optional)
The project focuses on capacity building of local government administrative structures in implementing the Integrated Budget Law and will not finance any civil works and construction activities. Therefore, there is no negative environmental impact and no instrument is required.

VII. Contact point

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