I. Project Context

Country Context

Mongolia is going through a period of dramatic change. Newly exploited mineral resources are the driving force behind an economic transformation with double digit GDP growth which is expected to continue for at least the coming decade. This will have a profound impact on the country with the accelerated shift in the economic base away from traditional sectors, including the livestock sector, towards mining and related services. Around 40 percent of the population is currently in rural areas where people earn their livelihood primarily through agriculture, mostly semi-nomadic pastoralism. There are concerns that rural areas will miss out on the benefits from the commodity boom and that urban areas will be unable to absorb additional in-migrants, leading to increased inequality in incomes and access to social services within urban areas and between urban and rural households.

II. Sectoral and Institutional Context

In this context, government has taken a number of policy actions to increase resource flows to rural areas to stimulate economic growth and support rural livelihoods. Public expenditure in the agricultural sector has increased rapidly in recent years, including the provision of subsidies for agricultural production, supporting SME funds and strengthening local capacity for service delivery. In addition, the country is considering a fundamental reform of public finance which will give increased responsibility to local authorities for local service provision and budget management.

In 2010, Parliament approved the National Livestock Program - an ambitious program to promote the livestock sector. This follows years of decline in government support to the sector, which despite increases in herder incomes due to the expansion of livestock numbers (primarily goats) combined with favourable livestock product prices (including cashmere), has led to declines in productivity, loss of services (including in animal breeding and animal health), and increases in risks associated with the degradation of pastureland, on which the livestock largely depend upon for nutrition. The sector can still be regarded as low input, low output and high risk, and the mentality of herders is still geared towards increasing livestock numbers rather than intensification and focusing on quality. The National Livestock Programme emphasizes the following priority areas to develop the sector:

i) to assist in the formulation of a favourable legal, economic and institutional environment for sustainable development, and to develop a good governance in the livestock sector;
ii) Improving animal breeding services based on social need/demand, increasing the productivity and production of high quality, bio-clean livestock products and raw materials and increasing market competitiveness;
iii) Raising the veterinary service standard to international levels and protecting public health through securing Mongolian livestock health;
iv) Developing livestock production that is adaptable to climatic, environmental, and ecological changes with strengthened risk management capacity; and
v) Developing targeted markets for livestock and livestock products; establishing proper processing and marketing structures and accelerating economic turnover through an incentive system.

These goals need to be set in the realities of the country, which add considerable challenges to any support for the sector. Mongolia is a vast country with very low population density in rural areas. It has a continental climate characterised by long, extremely cold winters, and generally low precipitation leading to fragile soils and vegetation. Extreme weather conditions (known locally as dzud) create vulnerable conditions for herders causing income and asset shocks, in particular through the death of herders’ principle assets: livestock. While the livestock sector continues to be significant in many households’ livelihoods, there is increasing divergence between households, between those which have become large scale producers, owning in excess of 500 head of livestock, and those for which the livestock sector does not, by itself, provide a sufficient source of income to support their household. These categories imply a diversity among households engaged in the livestock sector in terms of herd size, which has implications for the level of commercial orientation, management skills, and access to inputs and markets.
The Project Development Objective is to improve rural livelihoods and food security in selected aimags and soums through enhanced productivity, market access and diversification in livestock-based production systems.

IV. Project Description

Component Name
LINKING HERDERS TO MARKETS
RAISING LIVESTOCK PRODUCTIVITY AND QUALITY

Project Management

V. Financing (in USD Million)

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VI. Implementation

VII. Safeguard Policies (including public consultation)

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<td>Projects in Disputed Areas OP/BP 7.60</td>
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VIII. Contact point

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