1. Project Data:

- **PROJ ID**: P067770
- **Date Posted**: 10/29/2008
- **Project Name**: Mn - Sustainable Livelihoods
- **Country**: Mongolia
- **Project Costs** (US$M): Appraisal 22.1, Actual 24.9
- **Loan/Credit** (US$M): Appraisal 18.7, Actual 22.1
- **Sector Board**: ARD
- **Cofinancing** (US$M): 1.2
- **Sector(s)**: Other social services (45%), Micro- and SME finance (27%), Animal production (22%), Central government administration (6%)
- **Theme(s)**: Participation and civic engagement (23% - P), Infrastructure services for private sector development (22% - P), Improving labor markets (22% - P), Rural markets (22% - P), Administrative and civil service reform (11% - S)
- **L/C Number**: C3657
- **Board Approval Date**: 06/11/2002
- **Partners involved**: Japan Social Development Fund
- **Closing Date**: 12/31/2006

2. Project Objectives and Components:

- **Objectives**: The project was the first part of a three-phase Adaptable Program Loan operation, supporting the Sustainable Livelihoods Program (SLP).

  The **Project Development Objective is formulated differently in the Project Appraisal Document (PAD) and the Development Credit Agreement (DCA)**:

  **PAD**: "The development objective of the project—referring to the first four-year phase of the overall program—is: an effective approach to promoting improved, secure, and sustainable livelihood strategies developed, demonstrated, and validated in selected areas, and institutional capacity created so that these strategies can be replicated and scaled up in Phase II of the Program."
To assist the Borrower to reduce the incidence of poverty among poor and extremely poor households and to prevent non-poor households from falling below the poverty line, by (i) developing and implementing, on a pilot basis, secure and sustainable livelihood strategies, and (ii) building the institutional capacity for large-scale implementation of such strategies.

IEG’s internal guidelines state that, "In case of inconsistencies between the statement of objectives in the PAD and the Loan (Credit) Agreement, a case-by-case judgement should be made about which statement provides an appropriate benchmark for evaluation in the ICR Review".

In this case, the PAD describes the project as a targeted intervention and the overall program goal was clearly poverty-related:

"The overall program purpose is: "vulnerability reduced and secure and sustainable livelihoods achieved by targeted poor and vulnerable near-poor households and individuals nationwide " (PAD, p. 3).

However, in the ICR Review Meeting the project team maintained the project was only targeted in a limited sense: a certain share of the microfinance lending was earmarked for households beneath the poverty line; there was no area targeting. At the design phase the Sustainable Livelihoods Program (SLP) was to be part of a wider initiative (not supported by the Bank) which would address poverty; but this initiative did not materialize.

Nevertheless, given that the program of which the project was a part was clearly poverty-related and targeted, IEG evaluates the project against the project objectives outlined in the DCA because these are more closely linked to poverty reduction than those in the PAD. The absence of project-specific, poverty-related performance indicators in the initial project design does not mean (contrary to the suggestion in paragraph 1.2.3 of the ICR) that the project should be rated against the objectives set out in the PAD (which do not refer to poverty).

b. Were the project objectives/key associated outcome targets revised during implementation?

No

c. Components (or Key Conditions in the case of DPLs, as appropriate):

Pastoral Risk Management (Estimated, US$ 5.4 million; Actual, US$ 4.2 million). (a) Risk forecasting and contingency planning; (b) Grazing and Pasture Management; (c) Herder self-help initiatives; and (d) Hay and Fodder Enterprise Development.

Microfinance Outreach (Estimated, US$ 6.0 million; US$ 6.0 million). (a) Creation of Microfinance Development Fund; (b) Strengthening of Revolving Loan Funds; and (c) Development of an Index-Based Livestock Insurance Scheme.

Local Initiatives Fund (Estimated, US$ 9.0 million; Actual, US$ 12.0 million). (a) Financing of sub-projects; (b) Training and Capacity Building; and (c) Fiscal Decentralization.

Project management and Policy Support (Estimated, US$ 1.1 million; Actual, US$ 2.7 million).

d. Comments on Project Cost, Financing, Borrower Contribution, and Dates:

In December 2006 the project was extended for twelve months to allow for (a) increased financing of sub-projects, (b) further capacity building and (c) continuity of institutions with the follow-on project. The main reason for the higher actual US$ project cost was the appreciation of the SDR against the dollar.

3. Relevance of Objectives & Design:

Objectives. The project responded to the severe distress caused by weather shocks in Mongolia (the phenomenon of harsh winters, frequently following summer drought, leading to loss of pasture and high livestock mortality). Reducing household vulnerability to such shocks and improving access to social services are key themes in the Country Assistance Strategy. Project objectives were also informed by the findings from a participatory living standards assessment.

Design. This was a complex project. The project spanned several sectors and regions. Some of the approaches and
activities were innovative, particularly the livestock insurance and microfinance fund. Preparation included discussion with government about poorly-performing village-level rotating funds and made support for these conditional upon their becoming commercially viable. The project sought to work through existing government entities rather than create project-specific institutions parallel to government that were not likely to be sustainable. There were three design flaws. First, the substantial technical assistance needed to help communities adopt the new approaches piloted by the project was underestimated. Second, institutional change objectives were too ambitious. Third, the project development objective was poorly specified and not enough thought was given to the selection of appropriate performance indicators.

Overall, relevance is rated substantial.

4. Achievement of Objectives (Efficacy):

The requisite objectives are taken from the Development Credit Agreement, not the PAD (see Section 2a above for explanation). These objectives are:

**Overarching**
(i) Reduce the incidence of poverty among poor and extremely poor households.
(ii) Prevent non-poor households from falling below the poverty line.

**Subsidiary** (means by which overarching objectives will be achieved)
(iii) Develop and implement, on a pilot basis, secure and sustainable livelihood strategies.
(iv) Build the institutional capacity for large-scale implementation of such strategies.

**Objective (i) (Rating: Modest)**. The only indicator related to this objective concerns targeting of microfinance to poor households. The ICR (p. 16) states that 53 percent of sub-borrowers were classified as poor (Table A 2.3 says 47 percent). There is no indication what proportion of the poor obtained microfinance loans. There is no information in the ICR about reduced poverty incidence. The ICR says that 90 percent of borrowers reported an income increase.

**Objective (ii) (Rating: Modest)**. It could be inferred that the sub-project investments helped realize this objective but the ICR presents no evidence.

**Objective (iii) (Rating: Substantial)**. There is plentiful evidence in the ICR that secure livelihoods were developed and implemented. Livestock herding is the primary economic activity in the project area. By project close the number of herding households making adequate preparation for winter--preparing hay and fodder, building livestock shelters--had increased by 54 percent compared to the pre-project period (target: 33 percent). Livestock mortality in pilot areas fell by 44 percent (target: 33 percent). Improved management plans had been prepared for 100 percent of grazing land by project closed (target: 50 percent). An index-based livestock insurance scheme was piloted by the project and is now being scaled up in a follow on project. The sub-project component (Local Initiatives Fund) generated 1,729 investments, shared between education (57 percent), health (26 percent) and infrastructure (17%). As a result of activities under this component, 1,561 people were provided with temporary jobs and 135 new public service centers were established in remote rural areas. There is no information in the ICR indicating if the sustainability of sub-project investments had been assessed by project close.

**Objective (iv) (Rating: Substantial)**. Institutions were strengthened by the project and scaling up is now occurring. A Microfinance Development Fund was established and has been operating since 2003. A National Coordinating Council on Pastoral Risk Management was established in December 2005 and local pastoral risk management councils have been established and are functioning in all project areas since 2004. There are now 313 formal herder groups operating, of which 271 have taken out loans for income-generating and risk mitigating activities.

Overall, efficacy is rated substantial, on the basis that the overarching poverty-related objectives were not likely to be achieved by project closing but that achievement of the subsidiary objectives--on which poverty reduction was predicated--suggests that poverty would ultimately be reduced.

5. Efficiency (not applicable to DPLs):

Since this was a community-driven development project the nature of sub-project investments could not be known at the design phase and therefore ex ante economic analysis was not appropriate. The ICR estimates that the post ERR of subprojects ranged from 6 percent (dormitory heating system) to 30 percent (ambulances). Only one investment had a negative ERR--public bath houses--owing to low use rates and high running costs. The lag between sub-project submission and completion is lower than that for similar government civil works projects.

One of the main achievements of the program has been to persuade the government to replace the revolving funds it
had previously supported (which were not transparent and had poor loan recovery rates) with the Microfinance Development Fund (MDF). In January 2008 government finally transferred all the revolving fund allocation into the MDF, crowning an initiative launched by this project (i.e. the first-phase of the program). In the ICR Review Meeting the project team said that the creation of the MDF had boosted competition between financial intermediaries, helping to push down interest rates.

Efficiency is rated substantial.

a. If available, enter the Economic Rate of Return (ERR)/Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

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<th>Rate Available?</th>
<th>Point Value</th>
<th>Coverage/Scope*</th>
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* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome:
Based on substantial relevance, efficacy and efficiency the outcome rating is satisfactory.

a. Outcome Rating: Satisfactory

7. Rationale for Risk to Development Outcome Rating:
The main sources of risk are: (i) lack of adequate funding of organizations responsible for pastoral risk management; and (ii) government’s new regional policy which may lead to a restructuring of local institutions created by the project. The wind up of the rotating funds and substitution of support for microfinance institutions suggests that government is committed to the project approach, reducing the risk to development outcome.

At the ICR Review Meeting the project team told IEG that although there had been some earlier retreat by government, fiscal decentralization is now back on the agenda and will provide the enabling environment needed to sustain the positive results of SLP1 (and SLP2). In SLP2 the Local Initiatives Fund (which finances sub-projects) is being run through the local governor’s office, thus avoiding the parallelism that characterized the administrative apparatus of SLP1 (which centered on district councils that were separate from local government). Communities are now preparing ten-year development plans. Such planning encourages them to address the long-term maintenance of sub-project investments made under SLP1.

a. Risk to Development Outcome Rating: Moderate

8. Assessment of Bank Performance:
With the exception of the design flaws noted above, quality at entry was sound and, during supervision, the intervention of the Bank team was timely and effective.

a. Ensuring Quality-at-Entry: Satisfactory

b. Quality of Supervision: Satisfactory

c. Overall Bank Performance: Satisfactory

9. Assessment of Borrower Performance:
Government was strongly committed throughout preparation and implementation phases, setting up a National Committee which helped to ensure adequate coordination between the various agencies involved in the project. Staff of the implementing agencies were well qualified and extremely dedicated.

a. Government Performance: Satisfactory

b. Implementing Agency Performance: Satisfactory

c. Overall Borrower Performance: Satisfactory
10. M&E Design, Implementation, & Utilization:

**Design.** Inconsistency in specifying the Project Development Objectives (see Section 2a above) hampered monitoring. Also, the ICR notes (p. 9) that "The Key Performance Indicators (KPIs) and triggers were poorly articulated at project design and it is difficult to isolate the changes in variables that could be confidently said to reflect solely the effects of the project."

**Implementation.** The base-line survey was carried out two years after implementation began. The survey "produced very little data relevant to the monitoring of KPIs.” The indicators were modified in an attempt to better assess the difference the project made. In late 2006 separate impact assessments were conducted for the three main project components.

**Utilization.** The delay in the baseline survey and the weak linkage to KPIs reduced the scope for using the baseline survey to help evaluate project outcomes. But by project end an M&E system had been created that would permit the outcome-oriented assessment of the follow-on project.

**a. M&E Quality Rating:** Modest

11. Other Issues (Safeguards, Fiduciary, Unintended Positive and Negative Impacts):

The project triggered three environmental safeguard policies: Environmental Assessment; Natural Habitats and Pest Management. Special measures were taken to ease habitat access for the Wild Asiatic Ass. An Ethnic Minorities Participation Framework was prepared to help ensure adequate participation of ethnic minorities in the project. Towards the end of project implementation steps were taken to address procurement irregularities, involving supplementary training. High staff turnover complicated the financial management of the project, prompting changes in recruitment and training procedures that will strengthen fiduciary oversight of the follow on project.

12. Ratings:

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<th>ICR</th>
<th>IEG Review</th>
<th>Reason for Disagreement /Comments</th>
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<td><strong>Outcome:</strong></td>
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<tr>
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<tr>
<td><strong>Bank Performance:</strong></td>
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<td><strong>Quality of ICR:</strong></td>
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**NOTES:**
- When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
- The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

13. Lessons:

Subsidized credit and credit delivered through nonfinancial institutions is not a sustainable approach to rural finance and innovation. The project design included three approaches to providing credit in rural areas: (i) subsidized credit under the Pastoral Risk Management component; (ii) credit offered on commercial terms under the Microfinance Development Fund; and (iii) rotating funds operated by local authorities. Of these three approaches, only the MDF approach proved viable and sustainable. The performance of the subsidized credit and the RLFs was weak, the former having low repayment rates and weak administration and the
latter dropped from the project due to weak performance. The MDF did demonstrate the feasibility of increasing micro-finance outreach through the commercial financial sector.

**Fostering community participation takes time**. Although the project has been largely successful in bringing communities into the development process, especially under the Local Initiative Fund, the resources required for this were under-estimated during the project design. The ICR acknowledges that community mobilization is a continuing challenge that still needed to be addressed under the follow-on project.

14. **Assessment Recommended?**  ● Yes ○ No

**Why?**  This project should be assessed by IEG about 3-5 years from now to assess whether the expected longer-term reduction in poverty is actually achieved; also, because there have been few previous IEG evaluations conducted in Mongolia.

15. **Comments on Quality of ICR:**

A well-written ICR that is candid about the strengths and limitations of the project. One shortcoming: contrary to the current guidelines the ICR (Section 3.2) rates project components rather than project objectives.

**Quality of ICR Rating**: Satisfactory