I. Introduction and 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.

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.

Relationship to CAS

The proposed project would be funded from the Global Agricultural and Food Security Program (GAFSP), a multi-donor fund established in 2010 to assist countries to implement strategic investment plans for the development of agriculture and enhancement of food security. The proposal from Mongolia to GAFSP has been approved (in November 2010), and the World Bank and the Food and Agricultural Organization (FAO) selected as supervising agencies.

The aims and objectives of the project are consistent with the Bank’s on-going engagements in agriculture and rural development in Mongolia. Most notable, the Sustainable Livelihoods Program, currently in its second phase (P096439 / P125504) supports pasture risk management by working with herders and local authorities to put in place tools and infrastructure to increase resilience to climatic risk and thereby to support herder livelihoods. The proposed project represents a natural complement to the focus on risk management under SLP and the Index-based Livestock Insurance Project (IBLIP), as it would provide support for production and marketing activities.

A Country Partnership Strategy is currently under preparation. Under the new CPS, a focus for Bank support would be addressing rural vulnerability and supporting economic opportunities in rural areas, consistent with the aims of this project.

II. Proposed Development Objective(s)

Proposed Development Objective(s)

The PDO is to improve rural livelihoods in selected soums through enhanced productivity, market access, and diversification in livestock-based production systems.

Key Results

The key indicators include those which are core GASFP indicators. The expected PDO level results will be evidenced by:

i) Number of intended and actual direct beneficiaries disaggregated by gender (GAFSP core indicator);

ii) percentage increase in household income (GAFSP core indicator);

iii) percentage increase in the aggregate soum-level agriculture production and processing capacity; and,

iv) the proportion of target population below the minimum level of dietary energy consumption, disaggregated by gender and vulnerable groups ((GAFSP core indicator).

III. Preliminary Description

Concept Description

Component 1 – Linking Farmers to Markets (approximately US$ 4.0 million)

Sub-Component 1a: Value Chain Development (approximately US$ 3.0 million)

This component aims to improve the efficiency of livestock markets. It would focus on strengthening marketing arrangements in selected value chains between trading partners. Livestock value chains are currently weak and inefficient, whilst the quality of products remains poor. Produce markets lack more sophisticated institutional arrangements for price discovery, linking product quality to market demand, and reducing transaction costs. The component would support “productive partnerships” between producers (organized in groups or cooperatives) and processors. This approach reduces the risks to agribusiness to invest in more remote agricultural production regions and increases the quality of produce from herders. Partnerships would be identified through a competitive process. Selected partnerships would be supported with technical assistance to prepare full business plans, and once approved, matching grants would be used to help finance investments at the soum level and below to support the achievement of the business plan objectives (for instance to support improved quality of product, value adding activities or a more consistent supply). During preparation, the team would further explore the option to support livestock auctions for commercial and improved breeding stock. This will support more efficient commercial connections between buyers and sellers and facilitate transparent price discovery.

Sub-Component 1b: Diversification (approximately US1.0 million)

The component will support horticulture for income diversification and alternative livelihoods for rural families. This will: i) improve household and regional food security; ii) increase household income; iii) provide local employment; iv) promote agricultural development and diversification; and, v) provide an exit strategy from herding. Basic production support will go to groups of unemployed families and herders with very few animals. Matching grants will be made to established growers to build greenhouses, improve their irrigation systems and plant small fruit and berry plots. Small-scale processing at the soum which allow local growers to add value and shelf-life would also be supported.

Component 2 – Raising Livestock Productivity and Quality (approx. US$ 6.0 million)

Sub-component 2a: Animal health (approximately US$ 1.5 million)
Animal health activities will support the development of export markets through strategic planning for export development, bilateral negotiations and the strengthening of disease free zones, veterinary services and individual veterinary and para-veterinary capacity. Activities include: i) raising the knowledge and skills of veterinarians and paraprofessionals; ii) strengthening the FMD free zone; iii) upgrading animal health services and disease surveillance; and iv) technical assistance to increase exports. Project investments would be made into activities including: i) soum animal handling and veterinary equipment; ii) border inspection post and buffer-zone check points; iii) cold chain equipment; and, iv) aimag laboratory equipment.

Sub-component 2b:  Animal Breeding and Genetic Improvement (approx. US$ 2.5 million)
This sub-component will improve the quality of Mongolia livestock by improving economic traits demanded by end-users. The genetic improvement program will support the preservation of indigenous Mongolian sheep and cashmere goat breeds. The component will increase the quality of livestock products and animal productivity thereby contributing to improved household incomes and the proportion of total income earned from agriculture. Around six nucleus herds would be established for cashmere goats and sheep which would supply improved male animals to around 15 male flocks. Dairy breed improvement will be achieved through improving artificial insemination (AI) capacity. Beef breed improvement will be achieved by providing improved beef bulls to herders.

Sub-component 2c:  Animal Nutrition (approximately US$ 2.0 million)
Nutrition is the single greatest constraint in Mongolian livestock production. This sub-component would improved herder capacity to produce feeds and manage livestock feeding programs. The improved nutritional levels will improve reproductive rates and improved weight gains and contribute directly to improving household incomes and the proportion of income earned from agricultural production. Financing would be provided for the establishment of forage production and small-scale processing facilities at the soum level. The program will be supported by participatory training and farmer-focused research. Nucleus herd and dairy sites could be used for demonstration purposes so that herders and dairy producers in the industry at large can better understand the relationship between nutrition and productivity.

Component 3: Management and Donor Coordination (approximately US$1.0 million)
The project will support the coordination of project activities and the fiduciary functions of the Projects Implementation Unit (PIU) in the MOFALI. The PIU will be staffed and equipped to carry out these activities. The project will finance incremental staff, consultants, operating costs, some technical assistance and training, M&E activities and impact assessments, information dissemination and annual audits. Aimag and soum project and donor coordination functions will also be supported through Bank finance.

### IV. Safeguard Policies that might apply

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### VI. Contact point

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