



Combined Project Information Documents / Integrated Safeguards Datasheet (PID/ISDS)

Appraisal Stage | Date Prepared/Updated: 21-Feb-2020 | Report No: PIDISDSA28483

**BASIC INFORMATION****A. Basic Project Data**

Country Mongolia	Project ID P173126	Project Name Mongolia Third Sustainable Livelihoods Project - Additional Financing	Parent Project ID (if any) P125232
Parent Project Name Third Sustainable Livelihoods Project	Region EAST ASIA AND PACIFIC	Estimated Appraisal Date 02-Mar-2020	Estimated Board Date 24-Apr-2020
Practice Area (Lead) Social	Financing Instrument Investment Project Financing	Borrower(s) Ministry of Finance	Implementing Agency Ministry of Finance

Proposed Development Objective(s) Parent

The PDO is to improve governance and community participation for the planning and delivery of priority investments in rural areas of Mongolia.

Components

Capacity Building for Local Governance and Livelihoods
Good Governance Performance-Based Support Program
Project Management and Monitoring and Evaluation

PROJECT FINANCING DATA (US\$, Millions)**SUMMARY**

Total Project Cost	12.00
Total Financing	12.00
of which IBRD/IDA	12.00
Financing Gap	0.00

DETAILS**World Bank Group Financing**

International Development Association (IDA)	12.00
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IDA Credit	12.00
Environmental Assessment Category	
B-Partial Assessment	
Decision	
The review did authorize the team to appraise and negotiate	

Other Decision (as needed)

B. Introduction and Context

Country Context

The Local Development Fund (LDF) was introduced by the Integrated Budget Law (2011) to allow *aimags and soums* a discretionary financing instrument for investments emerging from local participatory planning processes. It has meant to be a benefit sharing mechanism of the mining revenues and also an important means of fiscal decentralization allowing the local people and authorities some choice in deciding local investment priorities. While the LDF represents a relatively small share of the overall fiscal transfer flows from central to local government (approximately 15%) and stands at around 15% of the state budget investments, for the majority of rural *aimags* (except for the 6 *aimags* with fiscal surplus) that do not have self-generated revenue to be used for local investments, it remains to be the only source of funding to address the local investment needs. The size of the LDF is expected to grow in the coming years as per the government's projects in the Medium Term Fiscal Framework.

Sectoral and Institutional Context

A performance-based funding mechanism associated with the LDF funding to *soums* has been a key element of the Third Sustainable Livelihoods Project (SLP3) complementing the project's capacity building activities based on the results of the independent Annual Performance Assessments (APA). While there has been a clear upward trend in overall APA scores, which doubled over the period, rising steadily from 31.7% in 2016 to 59.5% in 2019, linkages of the APA performance to the efficiency of the LDF and the citizens' satisfaction with the investments created would merit a closer look and analysis. Furthermore, potential simplification of the APA tool through using data to be collected through the LDF Management Information System currently being developed and the possibility of institutionalizing the PBG mechanism could also be explored further.

On November 14, 2019, the Ministry of Finance (MOF) requested additional financing of US\$12 million to scale up the development impact of the SLP3. Building on previous and ongoing efforts undertaken by the SLP3, the proposed project would scale up project activities and increase the emphasis on Capacity Building for Local Governance and Livelihoods (Component 1) and the Good Governance Performance-Based Support Program (Component 2). This would enable further progress towards the institutionalization of the PBG and APA mechanisms and building the relevant capacity at the local level, as well as increase the Project results on the ground, with additional demand-driven investments in basic infrastructure in rural soums across the country. A number of additional studies would also be included under the Project Management and Monitoring and Evaluation component (Component 3), with a view to further improving understanding of different aspects of the LDF activities under the Project.



C. Proposed Development Objective(s)

Original PDO

The PDO is to improve governance and community participation for the planning and delivery of priority investments in rural areas of Mongolia.

Current PDO

The PDO is to improve governance and community participation for the planning and delivery of priority investments in rural areas of Mongolia.

Key Results

- Soum citizens surveyed reporting that LDF financed investments reflected their priority needs increased.
- Average soum's Annual Performance Assessment score increased.
- Increased rural bagh households participation in public bagh meetings.
- Increased the capacity of Aimag Level Support Team and national government staff in applying skills learned through the project (planning, procurement, financial management, community participation and M&E).

D. Project Description

1. The project has three components, as described below:

2. **Component 1. Capacity Building for Local Governance and Livelihoods.** This component finances training activities for national, aimag (provincial), soum (district) and bagh (sub-district) officials with respect to the implementation of the LDF. The Project has intensified efforts under Component 1 in the past two years, including successfully expanding capacity-building efforts across the country in time to allow for the adoption of revised guidelines for the LDF activities in 2019. These efforts have included the training of 3,115 bagh (village) and soum (district) officials in Participatory Planning, as well as Investment Appraisal and Prioritization elements of the recently revised LDF guidelines; 3,138 soum officials in Procurement and Project Implementation; and further 5,490 soum government officials and representatives of citizens in the M&E and Asset Management and Maintenance issues respectively. Overall, these training efforts have helped ensure implementation of the enhanced LDF measures across the country, contributing towards further improvements in the key performance indicators in the LDF as assessed through the independent Annual Performance Assessment (APA). Furthermore, the Project has enhanced community participation, with related APA scores reaching nearly 70% in 2019 (up from 46% in 2018) and Participatory M&E scores reaching 65% (up from 35% in 2018).

3. **Component 2. Good Governance Performance-Based Support Program.** The national LDF finances basic infrastructure at the *soum* and *aimag* levels across the country.¹ SLP3 resources support the functioning of the LDF at the *soum* level through financing of Performance-Based Grants (PBGs) and the Annual Performance Assessments. *Soums* that perform well in the independent APA, which assesses soum compliance across six criteria (community participation, planning, disclosure, execution, M&E and asset ownership), receive an additional grant on top of their regular LDF allocation. There has been continued improvement in overall soum

¹ The SLP3 does not finance LDF activities in Ulaanbaatar City (UB City), which is supported through a different project.



performance ratings in the APA, with soums reaching an average performance of 59% in 2019, a significant improvement on the baseline of 32% in 2016. In 2018-2020, in the context of a significant fiscal crunch which led to a significant reduction in Government budget allocations for the LDF, the SLP3 also financed top-up grants which complemented the Government's budget allocations for the LDF in these years, with a view to reducing the volatility of the LDF financing and ensuring the continued relevance of the mechanism as a source for financing of local development activities.

4. **Component 3: Project Management and Monitoring and Evaluation:** This component finances the Project Implementation Unit (PIU) within the Ministry of Finance (MoF), which provides technical and operational assistance for the day-to-day management of the project, including through aimag-level Local Project Officers (LPOs). This component also supports specialized assessment that allow for evaluation of the project's results framework, a Management Information System (MIS), and studies to enhance the overall effectiveness of the LDF, the institutionalization of innovations supported under SLP3, and to inform related policy dialogue.

E. Implementation

Institutional and Implementation Arrangements

The Additional Financing will also be implemented by the dedicated PIU established under the MOF, and through existing Aimag Level Support Teams (ALSTs) and assigned soum officials.

F. Project location and Salient physical characteristics relevant to the safeguard analysis (if known)

The project will operate across the country in every soum and therefore across all ecological regions (desert-steppe, steppe, mountain-steppe). The investment support would be at soum level and below. The majority of soums are rural and the predominant resource base is grassland supporting semi-nomadic herding. Small urban centers (provincial capitals) would also be eligible for investment support under the PBGs. The participation of Ulaanbaatar in the project would be limited to technical assistance for capacity building but no investment under the project (ie Ulaanbaatar districts would be excluded from the PBGs).

G. Environmental and Social Safeguards Specialists on the Team

Wolfhart Pohl, Environmental Specialist
Yiren Feng, Environmental Specialist
Erdene Ochir Badarch, Social Specialist
Xinchen Zhang, Environmental Specialist



SAFEGUARD POLICIES THAT MIGHT APPLY

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	
Performance Standards for Private Sector Activities OP/BP 4.03	No	
Natural Habitats OP/BP 4.04	Yes	
Forests OP/BP 4.36	No	
Pest Management OP 4.09	No	
Physical Cultural Resources OP/BP 4.11	No	
Indigenous Peoples OP/BP 4.10	Yes	
Involuntary Resettlement OP/BP 4.12	No	
Safety of Dams OP/BP 4.37	No	
Projects on International Waterways OP/BP 7.50	No	
Projects in Disputed Areas OP/BP 7.60	No	

KEY SAFEGUARD POLICY ISSUES AND THEIR MANAGEMENT

A. Summary of Key Safeguard Issues

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:

The policies triggered under parent project will remain for the Additional Financing project. No new safeguard instruments have been triggered. The existing instruments have been updated to reflect the activities proposed under the AF and been consulted and disclosed to relevant stakeholders including the communities in which the project will have activities. No new component or activities anticipated under this AF.

The AF is in compliance with the environmental requirements of the GoM and the World Bank's environmental safeguard policies. The parent project was classified as Environmental Assessment (EA) Category 'B' according to OP/BP 4.01 Environmental Assessment. The AF will continue the parent project activities and will not trigger new safeguards policies or change the environmental category of the project.

Environmental Assessment (OP/BP 4.01). Like the parent project, the activities under the AF will overall generate significant environmental benefits, although measures are required to enhance the benefits and to avoid the possibility of localized negative impacts. The project has potential adverse environmental impacts on environmentally sensitive areas, land degradation and water resources due to the broader geographical scope of the project and its relation to policies and institutional development. These adverse impacts have been identified and assessed to be moderate or minor, site-specific, temporary and limited, and can be readily mitigated by the mitigation measures



proposed in the ESMP. No long-term large scale and/or irreversible negative impacts are expected.

Natural Habitat (OP/BP 4.04). Mongolia's pasture lands are natural habitats in the sense that they conform to the definition in OP4.04 on Natural Habitats and having significant national and global biodiversity value. The project, if not managed well, could have adverse impacts on these natural habitats. Thus, this policy is triggered.

Indigenous People (OP/BP 4.10). Mongolia has more than 30 ethnic groups. Dukha (reindeer or Tsaatan community live in taiga forest in the north) and Kazak an ethnic group that relies upon distinct native spoken and written language considered as ethnic minorities would need specific plan in order to benefit from AF project activities. The borrower has prepared an Indigenous People Plan (IPP) in accordance Word Bank's safeguard requirement which been consulted and disclosed.

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:

Through supporting the implementation of subprojects targeting at water source protection, waste treatment facilities renovation and husbandry sustainability improvement, the project is expected to generate long-term environmental benefits such as reducing the pollutants discharge, reducing the burden on pasture land and conserving water resource in the area. LDF subprojects of road construction, renovation of public facilities such as school, kindergarten and student dormitory are likely to bring social benefits to the citizens in the rural areas.

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.

N/A

4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.

Environmental Assessment (OP/BP 4.01). An Environmental and Social Management Plan (ESMP) has been prepared by the Borrower for the parent project in accordance with domestic and WB safeguard requirements, which guides the environmental and social screening and subsequent assessment of subprojects activities. For the additional financing, the ESMP has been updated by the Borrower for (i) strengthening the environmental impacts screening and subsequent assessment of the subprojects seeking finance under the LDF (including environmental assessment screening checklist and capacity building plan for Soum and Bagh Officers on environmental assessment), (ii) monitoring of construction impacts, subproject environmental impacts assessment and management plan implementation, (iii) auditing the ESMP implementation performance and proposing for improvement action plan.

Natural Habitat (OP/BP 4.04). For the additional financing, the project will continue to use each soum's maps of the location of environmentally-sensitive areas, and the ESMP has been updated to strengthen the subproject screening that subprojects which can affect critical natural habitats, water sources, cultural heritage or relics, protected areas, National Park, Strictly Protected Areas, natural reserves and other ecological sensitive sites will be excluded.

Indigenous Peoples (OP/BP 4.10). The SLP3 AF will be carried out nationwide including the areas populated with the Kazakh groups and Tsaatan groups who have been identified as Indigenous Peoples as per the definition of OP4.10 and the Project Indigenous Peoples Plan (IPP) was revised for AF project. The SLP3 AF will continue to follow the IPP, which has been updated based with consultations of Kazakh and Tsaatan community representatives.

Borrower Capacity

The SLP III Project Implementation Unit of the Ministry of Finance has satisfactorily implemented the project thus far



and is in compliance with safeguards measures listed in the ESMP. The capacity of this PIU has been further strengthened since the approval of the parent Project and is assessed as adequate to manage safeguards requirements. The last ISR safeguard rating was Moderately Satisfactory and the AF will facilitate improved capacity and systems to ensure ongoing satisfactory E&S risk management.

The proposed AF would scale up project activities and increase the emphasis the Capacity Building for Local Governance and Livelihoods (Component 1) activities under the Project. This would enhance the likelihood that the Project would be able to fully meet its Development Objectives with respect to community participation, citizen awareness of LDF budget allocations and utilization, and enhanced transparency. This would include efforts to strengthen community facilitation mechanisms at local level, expanding the use of technological solutions to overcome some of the challenges of distance and population dispersion in rural areas, and piloting annual social audits/community score cards as a regular community feedback mechanism. It would also further invest in strengthening the capacity of aimag and soum officials to internalize the enhanced LDF regulations, which were rolled out for the first time in 2019.

Additional resources in support of the Good Governance Based Support Program (Component 2) would finance a further two years of Performance-Based Grants (PBGs) and the related annual APAs. This would enable further progress towards the institutionalization of the PBG and APA mechanisms, as well as increase Project results on the ground, with additional demand-driven investments in basic infrastructure in rural soums across the country. A number of additional studies would be included under the Project Management and Monitoring and Evaluation component (Component 3), with a view to further improving understanding of different aspects of the LDF, including (i) the equity and transparency of LDF allocations at the aimag and soum level, (ii) legal and administrative measures required to further institutionalize SLP3 innovations in government systems, (iii) issues related to the equity and utilization of mining-related revenues in the LDF, including with respect to their use for offsetting social and environmental costs of mining activities, and (iv) deepening understanding of the LDF functioning at aimag (provincial) level and Ulaanbaatar city. Finally, the Project is in the process of developing a new Management Information System (MIS) for the LDF. The AF period would allow more time for a rollout and capacity-building measures for this MIS at all levels of government.

Consultation, engagement and grievance redress

The project is community driven. Accordingly, the ESMP includes a grievance redress mechanism and public communication plan to ensure the active engagement of project beneficiaries, particularly rural population, throughout the design and operation of the AF, while addressing any potential issues related to safeguard. The PIU has already established feedback registration system via project Facebook account and project website with communications in all relevant languages. This accessibility to information has – through the life of the project – assisted in reducing grievances through effective engagement. Communication consultant at the PIU assigned as responsible person to manage GRM. As of November 2019, total 27 feedback had been received by PIU however these were not in the form of complaints; instead they were suggestions and enquiries. The PIU will continue to strengthen existing GRM system further via informing the public, in particular project beneficiaries about the GRM and provide comprehensive information on the process to raise their suggestions and complaints related to project activities as well the Local Development Fund, should that be required.

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.

The original ESMP and IPP of the parent project was revised by borrower based on progress of the project activity in



regard managing the environmental and social risk. Project key stakeholders were consulted through workshops held in Murun town on January 7, 2020 and in Ulaanbaatar on January 15, 2020, and the comments and opinions of the stakeholders are considered and incorporated as appropriate into the mitigation measures of the ESMP. The final ESMP and IPP in Mongolian language was publicly disclosed on the Borrower's website on January 30, 2020.

B. Disclosure Requirements (N.B. The sections below appear only if corresponding safeguard policy is triggered)

Environmental Assessment/Audit/Management Plan/Other

Date of receipt by the Bank	Date of submission for disclosure	For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors
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"In country" Disclosure

Indigenous Peoples Development Plan/Framework

Date of receipt by the Bank	Date of submission for disclosure
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"In country" Disclosure

C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting) (N.B. The sections below appear only if corresponding safeguard policy is triggered)



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APPROVAL

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