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INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT PAPER

ON A

PROPOSED ADDITIONAL CREDIT

IN THE AMOUNT OF SDR8.80 MILLION  
(US\$12 MILLION EQUIVALENT)

TO

MONGOLIA

FOR A

Third Sustainable Livelihoods Project - Additional Financing

April 3, 2020

Social Global Practice  
East Asia and Pacific Region

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## CURRENCY EQUIVALENTS

(Exchange Rate Effective February 29, 2020)

Currency Unit = Mongolian Tugrik  
(MNT)

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MNT 2,763 = US\$1

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US\$1.3732 = SDR 1

## FISCAL YEAR

January 1 - December 31

Regional Vice President: Victoria Kwakwa

Country Director: Martin Raiser

Regional Director: Benoit Bosquet

Practice Manager: Susan S. Shen

Task Team Leader(s): Ingo Wiederhofer, Badamchimeg Dondog

## ABBREVIATIONS AND ACRONYMS

<i>Aimag</i>	Province of Mongolia
ALST	Aimag Level Support Team
APA	Annual Performance Assessment
APL	Adaptable Program Loan
<i>Bagh</i>	Rural sub-district administrative unit
CPF	Country Partnership Framework
DA	Designated Account
ERR	Economic Rate of Return
ESMP	Environmental and Social Management Plan
GFMIS	Government Financial Management and Information System
GLDF	General Local Development Fund
IBL	Integrated Budget Law
IDA	International Development Association
IFR	Interim Financial Report
IPP	Indigenous Peoples Plan
LDF	Local Development Fund
MOF	Ministry of Finance
MIS	Management Information System
MNT	Mongolian Tugrik
MTR	Mid-term Review
NGO	Non-Governmental Organization
PBG	Performance-based Grant
PDO	Project Development Objective
PIU	Project Implementation Unit
M&E	Monitoring and Evaluation
PPR	Post Procurement Review
LPO	Livelihoods Program Officer
PSC	Project Steering Committee
SDC	Swiss Agency for Development and Cooperation
SOE	Statement of Expenditures
<i>Soum</i>	Rural administrative district
SLP3	Third Sustainable Livelihoods Project
TOR	Terms of Reference
US\$	United States Dollar

**Mongolia**

**Third Sustainable Livelihoods Project - Additional Financing**

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**BASIC INFORMATION – PARENT (Third Sustainable Livelihoods Project - P125232)**

Country Mongolia	Product Line IBRD/IDA	Team Leader(s) Ingo Wiederhofer		
Project ID P125232	Financing Instrument Investment Project Financing	Resp CC SEAS1 (9358)	Req CC EACCF (344)	Practice Area (Lead) Social

Implementing Agency: Ministry of Finance

Is this a regionally tagged project?  No	
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Bank/IFC Collaboration  No
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Approval Date 06-Jun-2014	Closing Date 31-Oct-2020	Expected Guarantee Expiration Date	Original Environmental Assessment Category Partial Assessment (B)	Current EA Category Partial Assessment (B)
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**Financing & Implementation Modalities**

<input type="checkbox"/> Multiphase Programmatic Approach [MPA]	<input type="checkbox"/> Contingent Emergency Response Component (CERC)
<input checked="" type="checkbox"/> Series of Projects (SOP)	<input type="checkbox"/> Fragile State(s)
<input type="checkbox"/> Disbursement-Linked Indicators (DLIs)	<input type="checkbox"/> Small State(s)
<input type="checkbox"/> Financial Intermediaries (FI)	<input type="checkbox"/> Fragile within a Non-fragile Country
<input type="checkbox"/> Project-Based Guarantee	<input type="checkbox"/> Conflict
<input type="checkbox"/> Deferred Drawdown	<input type="checkbox"/> Responding to Natural or Man-made disaster
<input type="checkbox"/> Alternate Procurement Arrangements (APA)	

**Development Objective(s)**



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

**Ratings (from Parent ISR)**

	Implementation					Latest ISR
	09-Feb-2017	21-Nov-2017	06-Jun-2018	07-Dec-2018	19-Jun-2019	05-Dec-2019
Progress towards achievement of PDO	MU	MU	MS	MS	MS	MS
Overall Implementation Progress (IP)	MU	MS	MS	MS	MS	S
Overall Safeguards Rating	---	---	---	---	---	MS
Overall Risk	S	S	S	S	S	S

**BASIC INFORMATION – ADDITIONAL FINANCING (Mongolia Third Sustainable Livelihoods Project - Additional Financing - P173126)**

Project ID P173126	Project Name Mongolia Third Sustainable Livelihoods Project - Additional Financing	Additional Financing Type Scale Up	Urgent Need or Capacity Constraints No
Financing instrument Investment Project Financing	Product line IBRD/IDA	Approval Date 24-Apr-2020	
Projected Date of Full Disbursement 28-Feb-2023	Bank/IFC Collaboration No		
Is this a regionally tagged project?			



No

**Financing & Implementation Modalities**

<input checked="" type="checkbox"/> Series of Projects (SOP)	<input type="checkbox"/> Fragile State(s)
<input type="checkbox"/> Disbursement-Linked Indicators (DLIs)	<input type="checkbox"/> Small State(s)
<input type="checkbox"/> Financial Intermediaries (FI)	<input type="checkbox"/> Fragile within a Non-fragile Country
<input type="checkbox"/> Project-Based Guarantee	<input type="checkbox"/> Conflict
<input type="checkbox"/> Deferred Drawdown	<input type="checkbox"/> Responding to Natural or Man-made disaster
<input type="checkbox"/> Alternate Procurement Arrangements (APA)	
<input type="checkbox"/> Contingent Emergency Response Component (CERC)	

**Disbursement Summary (from Parent ISR)**

Source of Funds	Net Commitments	Total Disbursed	Remaining Balance	Disbursed	
IBRD					%
IDA	24.80	16.91	5.48		76 %
Grants	5.67	4.28	1.38		76 %

**PROJECT FINANCING DATA – ADDITIONAL FINANCING (Mongolia Third Sustainable Livelihoods Project - Additional Financing - P173126)**

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

**SUMMARY (Total Financing)**

	Current Financing	Proposed Additional Financing	Total Proposed Financing
<b>Total Project Cost</b>	30.80	12.00	42.80
<b>Total Financing</b>	30.80	12.00	42.80
<b>of which IBRD/IDA</b>	24.80	12.00	36.80
<b>Financing Gap</b>	0.00	0.00	0.00



**DETAILS - Additional Financing**

**World Bank Group Financing**

International Development Association (IDA)	12.00
IDA Credit	12.00

**IDA Resources (in US\$, Millions)**

	Credit Amount	Grant Amount	Guarantee Amount	Total Amount
<b>Mongolia</b>	12.00	0.00	0.00	12.00
National PBA	12.00	0.00	0.00	12.00
<b>Total</b>	<b>12.00</b>	<b>0.00</b>	<b>0.00</b>	<b>12.00</b>

**COMPLIANCE**

**Policy**

Does the project depart from the CPF in content or in other significant respects?

Yes  No

Does the project require any other Policy waiver(s)?

Yes  No

**INSTITUTIONAL DATA**

**Practice Area (Lead)**

Social

**Contributing Practice Areas**

Governance

**Climate Change and Disaster Screening**

This operation has been screened for short and long-term climate change and disaster risks



**PROJECT TEAM****Bank Staff**

<b>Name</b>	<b>Role</b>	<b>Specialization</b>	<b>Unit</b>
Ingo Wiederhofer	Team Leader (ADM Responsible)		SSOGL
Badamchimeg Dondog	Team Leader		EEAG1
Gerelgua Tserendagva	Procurement Specialist (ADM Responsible)		EEAR1
Erdene Ayush	Financial Management Specialist (ADM Responsible)		EEAG1
Erdene Ochir Badarch	Social Specialist (ADM Responsible)		SEAS1
Yiren Feng	Environmental Specialist (ADM Responsible)		SEAE1
Gantuya Paniga	Procurement Team		EACMF
Juliette E. Wilson	Team Member		SEAS1
Ross James Butler	Social Specialist		SEAS1
Thu Ha Le	Counsel		LEGES
Wolfhart Pohl	Environmental Specialist		SEAE1
Xinchen Zhang	Environmental Specialist		SEAE1
Yingnan Jia	Team Member		SEAS1
Zhuo Yu	Team Member		WFACS

**Extended Team**

<b>Name</b>	<b>Title</b>	<b>Organization</b>	<b>Location</b>
Faustinus Marius Ravindra Corea	Management Information Specialist		Melbourne



## I. BACKGROUND AND RATIONALE FOR ADDITIONAL FINANCING

1. **This Project Paper seeks the approval of the Board of Executive Directors for an additional International Development Association (IDA) credit in the amount of SDR 8.80 million (US\$12 million equivalent) to the Third Sustainable Livelihoods Project (SLP3, Credit No. 5487).** The proposed Additional Financing (AF) Credit will scale up impacts of SLP3 and will support: (a) two additional cycles of Performance-Based Grants (PBGs) for *soums* (rural administrative districts) related to their implementation performance for the Local Development Fund (LDF); (b) two additional Annual Performance Assessments; (c) further capacity-building of *soum* and *aimag* (province) officials; and (d) a range of analytical activities to strengthen Monitoring and Evaluation (M&E) and to inform further improvements in the LDF.
2. **The SLP3 was approved by the World Bank Board of Executive Directors on June 6, 2014 with an International Development Association (IDA) credit of SDR 16.1 million (US\$24.80 million equivalent), and Trust Fund grant co-financing from the Swiss Agency for Development and Cooperation (SDC) in the amount of US\$6 million.** The project became effective on July 31, 2015 and the original credit closing date was December 31, 2018. The closing date of the parent credit was later extended to October 31, 2020. With the additional financing of US\$12 million, the total financing of the project will increase to US\$42.8 million equivalent. A restructuring to the parent project will be carried out for the Project to include: (i) revision to Components and Costs; ii) an extension to the closing date of the parent loan, which will be extended from October 31, 2020 to October 31, 2022 to implement the activities of the Additional Financing; and iii) revision to the Results Framework to reflect the scale up of activities funded from the AF.
3. **Rationale for Additional Financing.** In a context of gradually increasing national budget allocations for the LDF after significant reductions during the severe fiscal crunch of 2015-2018, there is strong interest on the part of the Government of Mongolia (GOM) to scale up SLP3 activities. Additional financing is justified based on the satisfactory performance of the parent credit, the sound economic rates of return of LDF investments, and the need for further support for the institutionalization of LDF procedures and mechanisms at all levels of government. The AF approach was found to be the most appropriate at this stage for the following reasons:
  - a. An AF operation would allow the Government to further strengthen efforts to improve the quality of LDF implementation, institutionalize key SLP3 innovations, strengthen local government systems to support the sustainability of infrastructure investments, and scale up measures to foster the participation of women, ethnic minorities, and other vulnerable groups in LDF planning activities.
  - b. The AF will rely on the existing implementation capacity of the Project Implementation Unit (PIU) under the MOF and will be cost effective.
  - c. All legal covenants are in compliance. There is no overdue audit report, and the audit reports of the parent project have been unqualified. The existing PIU is familiar with the World Bank's fiduciary requirements.
  - d. The AF will neither trigger additional safeguard policies, nor will it raise safeguard-related issues not covered under the SLP3's current Integrated Safeguards Data Sheet (ISDS).



4. **Project Background and Status.** The SLP3 builds on the two previous phases of the Sustainable Development Program that were implemented between 2002-2007 and 2007-2013, respectively, and helped introduce participatory community development approaches in rural communities. Based on the implementation experience of the SLP1 and SLP2, as well as other local development efforts, the GOM introduced the Local Development Fund (LDF) through the Integrated Budget Law that came into force in 2013. The LDF provides *aimags* and *soums* a discretionary financing instrument for investments in public goods that emerge from local participatory planning processes. The LDF has been intended to serve as a benefit sharing mechanism for mining revenues and is an important means of fiscal decentralization, allowing the local people and authorities some choice in deciding local investment priorities. In this context, the SLP3 was designed to support institutionalization of the community participation, fiduciary and other related processes.

5. The Project Development Objective of the SLP3 is to improve governance and community participation for the planning and delivery of priority investments in rural areas of Mongolia. The project activities currently cover all 330 rural *soums* in Mongolia (thus, a total of approximately 1,650 *baghs*, *i.e.*, *rural sub-district administrative unit*). The project is not implemented in Ulaanbaatar City, which has received support from a separate Program supported by the Swiss Agency for Development and Cooperation (SDC).

6. Poverty rates have declined significantly in Mongolia in the previous decade. However, differences between provinces and between urban and rural areas persist: poverty stands at 30.8 percent in rural areas compared to 27.2 percent in urban areas as of 2018.<sup>1</sup> Access to services and markets remains poorer in rural areas: as per the latest Population and Housing Census of 2010<sup>2</sup>, percentage of households in rural areas: carrying water from the outside was 93.8 percent (48.9 percent in the urban areas); with no specific point to dispose solid waste was 58.9 percent (9.9 percent in urban areas); and no toilet available was 45.7 percent (4.7 percent in urban areas).

7. The parent project has three components; the status of implementation of each component is summarized below.

8. **Component 1: Capacity Building for Local Governance and Livelihoods** (US\$6 million). This component finances training activities for national, *aimag* (provincial), *soum* (district) and *bagh* (village) officials with respect to the implementation of the LDF. The Project has successfully expanded capacity-building efforts across the country in time for the adoption of the revised guidelines for the LDF activities in 2019<sup>3</sup>. These efforts included the training of 3,115 *bagh* and *soum* 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 a further 5,490 *soum* officials and representatives of citizens on M&E and Asset Management and Maintenance respectively. These training

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<sup>1</sup> Mongolia Poverty Update 2018. National Statistics Office and World Bank.

<sup>2</sup> The census is run every 10 years and the 2020 results are yet to become available.

<sup>3</sup> The capacity building efforts provide local authorities and communities training and technical assistance in several areas, including: (i) community participation; (ii) investment planning; (iii) technical quality (including climate resilient and efficient design); (iv) budget execution; (v) procurement; (vi) M&E and MIS; and (vii) social and environmental screening and mitigation measures.



efforts have helped ensure implementation of the enhanced LDF measures across the country, and have contributed towards further improvements in the key performance indicators in the LDF, as assessed through the independent Annual Performance Assessments (APA). The Project has enhanced community participation, with related APA scores reaching nearly 70 percent in 2019 (up from 46 percent in 2018) and Participatory M&E scores reaching 65 percent (up from 35 percent in 2018).

9. **Component 2: Good Governance Performance-Based Support Program** (US\$21.60 million). The national LDF finances basic infrastructure at the *soum* and *aimag* levels across the country.<sup>4</sup> SLP3 resources support the functioning of the LDF at the *soum* level through financing of Performance-Based Grants (PBGs) and of the Annual Performance Assessments. *Soums* that perform well in the independent APA, which assesses 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.<sup>5</sup> There has been continued improvement in overall *soum* performance ratings in the APA, with *soums* reaching an average performance of 59 percent in 2019, a significant improvement on the baseline of 32 percent 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 cushioning the volatility of the LDF financing and ensuring the continued relevance of the mechanism as a source for financing of local development activities.

10. **Component 3: Project Management and Monitoring and Evaluation** (US\$3.20 million). 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). It also supports specialized assessments<sup>6</sup> that enable the evaluation of some of the performance indicators in 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 related policy dialogue.

11. **Progress towards achieving the PDO.** Progress of the SLP3 towards achieving its PDO is currently rated Moderately Satisfactory. Available evidence indicates that the project is on track to achieve its development objective. The indicator target related to average *soum* APA scores has almost been reached. Several intermediate indicator targets (e.g., relating to training of government staff, adoption of revised regulations, etc.) have already been surpassed and others are within reach by the current closing date of October 31, 2020. Two PDO indicators and a number of intermediate indicators will be assessed as part of an end-line survey planned for mid-2020, and cannot be reported on as yet.

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<sup>4</sup> As indicated earlier, the SLP3 does not finance LDF activities in Ulaanbaatar City, which is supported through a different project.

<sup>5</sup> LDF subprojects funded under the parent project that will likely be supported under this AF include: reforestation; building or renovation of landfill, waste management systems and fencing; disaster preparedness and management; conservation and rehabilitation of the environment; design, construction and repair of water wells; flood protection; public green spaces and other sub-projects. These construction activities will in part address natural and climate hazards that affect Mongolia, including the effects of droughts, deforestation, *dzuds*, fires and localized floods on the rural populations, as identified at the *soum* level through a participatory process.

<sup>6</sup> One assessment will focus on furthering opportunities for supporting local level climate adaptation, with an emphasis on DRM planning, resilient infrastructure and vulnerable communities.



12. **Implementation Performance is Satisfactory.** The results of the 2019 APA confirm continued improvements in the overall *soum* performance ratings for LDF implementation, with *soums* reaching an average APA score of 59 percent in 2019, a significant improvement on the baseline of 32 percent in 2016, and the 50 percent score achieved in 2018. The 2019 Performance Based Grants (PBGs) were transferred in June 2019 to all eligible *soums* as planned.
13. **As of end-February 2020, IDA disbursement was at 75 percent, with US\$5.44 million yet to be disbursed.** The Performance Based Grants (PBGs, US\$2.4 million) as well as top up grants of US\$1.3 million planned for 2020 have been included in the annual budget submission of the Ministry of Finance (MOF) to Parliament as required, increasing the likelihood that the Project will fully disburse IDA resources on schedule. Seventy six percent of the SDC Grant co-financing in the amount of US\$5.67 million (reduced from the original allocation in 2016) has been disbursed. As the SDC TF grant is scheduled to close by June 30, 2020, it is expected that the AF will only utilize IDA resources.
14. **The project is in compliance with all legal covenants and there are no overdue audit reports.**
15. **Financial management is rated Moderately Satisfactory.** Financial management arrangements are in place as agreed and the system is working properly. Financial management reporting and audit requirements have been complied with. The FY18 audit report was unqualified, submitted on time, and is satisfactory to the Bank.
16. **Overall performance on social and environmental safeguards is Moderately Satisfactory, with no major negative impacts or complaints identified.** Land-related issues are being adequately managed and documented. The environmental risk is considered low given the nature and locations of subproject activities. Safeguard policy requirements and impact mitigation measures are provided in the Environmental and Social Management Plan (ESMP) to ensure policy compliance. The rating of Moderately Satisfactory is due to delays in the planned training of *soum* and *aimag* Environmental Officers. The Environmental and Social Management Plan (ESMP) and the Indigenous Peoples Plan (IPP) of the parent project have been revised based on the implementation experience under the parent project. Project stakeholders were consulted through workshops held in Murun, Khuvsgul *aimag* on January 7, 2020 and in Ulaanbaatar City on January 15, 2020, and the comments and opinions of stakeholders have been considered and incorporated as appropriate in the mitigation measures of the ESMP.
17. **Alignment with the World Bank Group's Country Partnership Framework (CPF).** The AF's objective is aligned with the latest Performance and Learning Review of the World Bank Group's Mongolia Country Partnership Strategy for FY13-18 (Report No. 139667-MN), discussed by the Board on November 13, 2019, which included the SLP3 under the Objective 1.2: Supporting a more robust, equitable, and transparent management of public revenues and expenditures. The SLP3 has helped improve the fiscal transfer mechanism to local governments and has supported increasing the effectiveness of the LDF, which is a key source of investment funding for the local *aimags/soums*. A new CPF is scheduled to be prepared in FY21, and it is expected that inclusive rural development, service delivery and governance will continue to be priorities in this CPF. The government has already communicated to the Bank its interest in continued engagement in these areas.



18. **The AF will also continue to support the World Bank Group’s strategic twin goals of ending extreme poverty and boosting shared prosperity**, which are consistent with the focus of the country’s long-term development policy document “Mongolia: Sustainable Development Vision 2030” (approved in 2016 by Resolution no. 19 of the State Great *Khural*) that aims to end poverty in all its forms and reduce income equality, and have 80 percent of the population in the middle and upper-middle income classes. Further, the capacity building activities to be undertaken by the AF are consistent with the Vision 2030’s objective no. 2 under Part 2.4. Governance for Sustainable Development “Improve the leadership of civil service organizations at all levels and develop transparent and accountable governance at the national and local levels, based on public participation and public-private partnership.”

19. **Citizen Engagement.** Activities targeted at building local capacity for engaging citizens in the LDF processes and raising public awareness have been central to the SLP3. Opportunities for engaging citizens in the LDF process are present in almost every step of the LDF cycle, starting with planning (through citizens proposing subprojects and participating in *bagh* meetings, where sub project proposals are prioritized), participation in local procurement activities, monitoring the execution of subprojects, ensuring transparency in these processes, and closing the loop to inform the subsequent year’s planning process based on feedback/lessons learned. Under the parent project, a number of pilot initiatives were tested and have been scaled up to promote greater citizen participation in the LDF process. Building on these, further measures are planned under the AF. These have included the use of a traditional system of 10 household heads as a means for community outreach in Bayan-Ovoo *soum* of Khentii *aimag*, and the development of customized engagement processes for pastoral herders of the *Tsaatan* ethnic minority in Khuvsgul *aimag*.

20. **Gender.** The AF will continue to support opportunities for women through the LDF. The most critical opportunity for the participation of women in the prioritization of local investments and the allocation of budgetary resources comes through the *bagh* meetings, which are the key point for communities to voice their local development needs and priorities. Furthermore, in order to incentivize the participation of women, the percentage of women attending *bagh* meetings is included as a performance criterion for the allocation of PBGs. A significant number of *soum* and *aimag* officials who benefit from SLP3 capacity-building are also female.

21. **Climate Change and Natural Disasters.** Mongolia is situated on a high plateau with an extreme continental climate with long, cold winters and short summers—the country is considered at major risk from climate change that would result in decreased productivity. *Dzuds* (severe winter storms) and forest and steppe fires are among the potentially most damaging natural hazards in Mongolia. Recurring *dzuds* and droughts over the last decade have affected much of the rural population. The 2009–2010 *dzud* resulted in losses of 25 percent of Mongolia’s total livestock population, affecting the livelihoods of 97,000 poor herder households. Further, extreme weather was experienced during the November 2015–April 2016 winter *dzud*, with 90 percent of the country covered by snow and temperatures of –50° Celsius, devastating grazing conditions for herders and their livestock; they were already reeling from the severe 2015 summer drought that led to a 40 percent reduction in wheat production and grazing pasture. According to the United Nations, over 41 percent of Mongolia’s herder population was affected and 1.1 million livestock perished in the recent *dzud* (officially declared over as of May 16, 2016). These extreme weather events also pose risks to infrastructure in project areas.





22. Climate change and human action have brought about higher disaster risks and environmental degradation. Over the last six decades, the frequency and severity of natural disasters (*dzud*, drought, fires and floods) has been growing, and a clear upward trend in average temperatures and reduced rainfall have been observed.<sup>7</sup> If not addressed, these trends could likely hinder economic growth and adversely affect the rural population's well-being in the long term. As *soums* develop and implement LDF investments, it is important to incorporate mechanisms to strengthen climate adaptation and disaster risk management elements in planning. Under the parent project, several climate resilient activities have been financed under the LDF, including flood protection; building or renovation of landfills/waste management sites; conservation and rehabilitation of the environment, reforestation and water points for livestock. In 2018, these represented approximately 10 percent of overall LDF investments. Similar activities will continue in the AF. Under Component 3, the AF will support analytical work that assesses further opportunities to support local level climate adaptation, with an emphasis on DRM planning, resilient infrastructure and vulnerable communities.

23. **Lessons Learned.** Clear, practical and accessible procedures for local authorities and for citizens were found to be essential for the effective implementation of the LDF. The LDF regulations were amended in 2018 to this end, and these changes were supported with significant capacity-building efforts. Targeted communication efforts to disseminate information to citizens on how to participate in the LDF processes coupled with the local governments' efforts to increase community participation have already led to significant improvements in citizen engagement, which provide a strong foundation for further measures to enhance transparency and citizen engagement. The APAs and the PBGs have fostered a sense of healthy competition and drive towards better performance among *soum* authorities in managing the LDF. On the project management side, the increased ownership by the MOF of the project following measures instituted during the restructuring of the parent project in October 2017 has been key to improved implementation performance.

## II. DESCRIPTION OF ADDITIONAL FINANCING

24. **No changes are envisaged to the PDO, the overall scope or project components.** The SLP3 will retain its strong focus on enhancing community participation and governance in local development through its support to the LDF. The SLP3 has been focusing on institutionalization, and the AF is meant to further strengthen this process by helping to further strengthen implementation capacity at the *soum* and *aimag* levels, including with respect to community participation, local procurement, M&E and transparency. The AF will also provide further inputs on policy choices to strengthen the fiscal sustainability and equity of the mechanism. Building on the implementation progress and the lessons learned under the current project, the AF intends to scale-up the project activities as described below.:

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<sup>7</sup> While the *dzud* is purely a natural climate phenomenon, forest and steppe fires are caused by natural and anthropogenic factors. Beyond lightning, frequent causes of forest and steppe fires are human activity ranging from vehicle sparks to cooking ash to improperly disposed cigarette butts to hunter tracer bullets. Forest and steppe fires threaten herders and ecosystems, claiming lives of poorly equipped firefighters, community members and livestock. Forest fires contribute to an estimated loss of 60,000 hectares (ha) of forest per annum.



25. **Component 1: Capacity Building for Local Governance and Livelihoods** (US\$3.4 million). The proposed AF would scale up project activities and increase the emphasis on capacity building and public awareness. 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. Activities would include efforts to strengthen community facilitation mechanisms, expanding the use of technological solutions to overcome the challenges of distance and population dispersion in rural areas, and the piloting of annual social audits/community score cards as a community feedback and accountability 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 in 2019. Enhanced communication and awareness raising efforts using conventional and social media as well as other channels are also envisaged.

26. **Component 2: Good Governance Performance-Based Support Program** (US\$7.7 million). Additional resources under the AF would finance a further two years of PBGs and the related annual APAs. This would enable further scaling up of Project results on the ground, with additional investments in basic infrastructure in rural *soums* across the country that are demand-driven and eligible under the Integrated Budget Law (IBL). Typical investments include water supply systems, the rehabilitation of school facilities, street lighting, public sanitation, etc. The AF will also allow time for the institutionalization of the PBGs and APA mechanisms that have been successfully tested in implementation of the parent project.

27. **Component 3: Project Management and Monitoring and Evaluation** (US\$0.9 million). In addition to financing the PIU costs and the project endline survey, a number of additional studies would be included under this component. These thematic studies will be carried out with a view to further improving the effectiveness of different aspects of the LDF, including: (i) the equity and transparency of LDF allocations at the *aimag* and *soum* levels; (ii) legal and administrative measures required to further institutionalize SLP3 innovations in government systems; (iii) 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 the understanding of the LDF functioning at *aimags* and Ulaanbaatar City. The AF period would allow more time for a rollout and capacity-building measures at all levels of government for the new Management Information System (MIS) for LDF that is currently being developed.

28. The AF will include analytical work to assess opportunities to strengthen climate resilience and disaster risk management elements in local level LDF planning and implementation processes, as well as the use of LDF resources for early response and recovery for natural disaster events.

29. **Implementation Arrangements.** The AF will continue to be implemented by the dedicated PIU established under MOF, and through existing *Aimag* Level Support Teams (ALSTs) and assigned *soum* officials. PIU staffing will be reinforced in the area of citizen engagement and community participation. The implementation period will be from November 1, 2020 to October 31, 2022.

30. **Results Framework.** The Results Framework has been refined by moving two of the current PDO indicators (number of sub-projects completed, and number of direct beneficiaries) to the intermediate results level, where they are more appropriately placed, as they measure outputs. Given that activities will be scaled up for a further two years, a number of indicator targets will be revised to reflect the changes in the scale of the project. For example, the PDO indicator target related to the average APA scores for





*soums* will increase from 60 percent to 70 percent. The target for the number of LDF sub-projects to be completed will increase from 30,000 to 36,000. Detailed information on the current status of the results indicators as of December 31, 2019, and of associated targets for the parent project, are reflected in the Data Sheet.

31. **Results Chain.** The results chain that depicts the theory of change of the AF project is shown below. Problem Statement: Weak institutional and organizational capacity at local levels adversely affects delivery of priority investments.

Component	Activities	Outputs	Project Outcomes	Impacts
<b>Component 1: Capacity Building for Local Governance and Livelihoods</b>	<ul style="list-style-type: none"> <li>TA/Capacity building to strengthen <i>soum</i> and aimag planning and management capacity</li> <li>TA/capacity building to central and public administration to implement the LDF</li> <li>Support to community participation &amp; M&amp;E efforts</li> </ul>	<ul style="list-style-type: none"> <li>Improved APA results and timely implementation of LDF measures</li> <li><i>Soums</i> implement LDF in accordance guidelines</li> <li>Increased household participation in <i>bagh</i> citizen meetings</li> </ul>	<ul style="list-style-type: none"> <li>Improved performance and capacity of LDF in rural management</li> <li>Improved capacity of <i>soums</i> to plan, finance, implement and maintain rural investments</li> <li>Increased percentage of citizens familiar with LDF and agree that LDF is meeting local priorities</li> <li>Increased transparency and inclusiveness of LDF planning and decision-making processes</li> </ul>	<ul style="list-style-type: none"> <li>Improved access to rural priority investments</li> <li>Improved community participation</li> </ul>
<b>Component 2: Good Governance Performance-Based support Program</b>	<ul style="list-style-type: none"> <li>Performance based grants included in annual budgets and transferred to <i>soums</i> to finance LDF activities</li> <li>Annual Performance Assessments of <i>soums</i> completed</li> </ul>	<ul style="list-style-type: none"> <li>Increased provision of basic infrastructure</li> <li>APAs results determine allocation of PBGs and operationalized under the fiscal transfer system</li> </ul>	<ul style="list-style-type: none"> <li>Increased percentage of <i>soums</i> qualify for PBGs</li> <li>Increased number of people with access to improved rural infra/resources and services</li> <li>Improved annual performance of participating <i>soums</i></li> </ul>	
<b>Component 3: Project Management and Monitoring and Evaluation</b>	<ul style="list-style-type: none"> <li>Web-based MIS operational</li> <li>Key Studies completed</li> </ul>	<ul style="list-style-type: none"> <li><i>Soums</i> use better-quality designs for infrastructure investments, and enhanced social and environmental</li> </ul>	<ul style="list-style-type: none"> <li>Improved performance of participating <i>soums</i>.</li> </ul>	



Component	Activities	Outputs	Project Outcomes	Impacts
		safeguards approaches. <ul style="list-style-type: none"> <li>MIS is used for monitoring and transparency purposes.</li> </ul>		

32. **AF implementation period.** The implementation period will be from November 1, 2020 to October 31, 2022, allowing for the disbursement of two cycles of PBG financing and two rounds of APAs. The Project will be eligible for retroactive financing for all categories of Eligible Expenditures up to an aggregate amount of SDR1,760,000 prior to the expected credit Signature Date, but on or after November 1, 2019.

### III. KEY RISKS

33. **The overall risk rating for the Project continues to be assessed as Substantial, and the mitigating measures will be informed by the lessons learnt from the implementation of the current project.**

34. **Political and governance risks are rated as Substantial.** A parliamentary election is scheduled for 2020, so the team has been developing mitigation measures to minimize the risks of political interference in project implementation at the local level, and to ensure that implementation of the planned activities continues even if there is a change in government. Such measures will be informed by the lessons learnt from project implementation following the 2016 elections, and will include codes of conduct for PIU and LPO staff, restrictions on training events during the election period, and limiting disbursements during the election period.

35. **The macroeconomic risk is increased from Moderate to High.** Mongolia’s economic outlook is dependent on global factors, particularly commodity prices. The economic impact of the COVID-19 epidemic is expected to be significant. To mitigate these risks, the World Bank is engaging with the government to include substantial macroeconomic policy adjustments that would strengthen the country’s capacity to cope with external shocks. Fiscal parameters can also affect the state budget allocations to the LDF. In the event of a significant reduction in the base LDF budget allocation due to economic difficulties, project funds that could not be provided in the form of PBGs would be channeled to *soums* in the form of top-up grants following the normal LDF allocation formula as a way to cushion the impacts of the budget reductions, as has been done under the parent project.

36. **The institutional capacity for implementation and sustainability is rated as Substantial.** At the local level, the implementation of the LDF is the responsibility of *soum* authorities, with the participation from communities and the local *Khural*. This has meant that significant responsibilities and workload at the local level, where capacity continues to be limited, requiring further strengthening. Past APAs and the compliance audit conducted by the National Audit Office suggest that there continue to be concerns around LDF efficiency and effectiveness, including use of funds for ineligible activities, substitution of sub-projects by other *khural* investment proposals, insufficiently clear ownership of some assets created, inadequate reporting, and insufficient funds release for planned activities. Given the arrangement of comingling of project funds with the state budget allocation to the LDF, any of the above could negatively impact the project implementation. Furthermore, attracting high quality staff and staff retention are a



challenge in Mongolia. Hence, the high staff turnover at the MOF, *aimag* and *soum* authorities, as well as at the PIU, could pose a risk to the project implementation. Recent civil service reforms have sought to reduce the risk of personnel changes associated with election cycles at technical civil service levels. Moreover, the Project has adopted a continuous approach to training, with a view to ensuring that recently recruited personnel are familiar with LDF procedures.

37. **The stakeholder risk is rated as Substantial.** While the commitment to the policy reform process has so far been consistent, if there is a change of direction from government in the areas of decentralization, local development, and community participation, this may lead to efforts to interfere with the activities implemented under the project. Also, there are different interest groups within relevant ministries and agencies who may seek an undue influence on project implementation. The revisions to the LDF regulations issued in 2019 include significant clarifications of the procedures required for implementation, with a view to standardizing and raising standards. These refinements have been reinforced with significant capacity-building investment in relevant *soum* and *aimag* officials.

## IV. APPRAISAL SUMMARY

### A. Economic and Financial (if applicable) Analysis

38. The LDF was a significant financing innovation introduced by the 2011 Integrated Budget Law, which for the first time allowed local governments to receive advance capital budget allocations for investments to be locally proposed and approved. It was intended to serve as an important means of fiscal decentralization as well as a benefit sharing mechanism of the mining revenues. The LDF represents a fairly modest share of the overall fiscal transfer flows from central to local government (approximately 15 percent) and also stands at around 15 percent of the state budget investments. However, in the majority of rural *aimags* that do not have self-generated revenue to be used for local investments, it remains the primary source of funding to address local investment needs. Moreover, the size of the LDF is projected to grow in the coming years as per the government's Medium-Term Fiscal Framework.

39. In recent years, there have been many changes to the funding arrangements for the LDF – both for the GLDF and for the mining-related fees: changed funding sources, changed percentages, changed *aimag/soum* sharing ratios, the introduction of base expenditure (recurrent cost) deductions, etc. Additionally, there has been a temporary but sharp decline in the revenue bases for some major LDF financing sources due to the commodity price decline and fiscal crunch in the period 2015-2017. These changes have led to significant volatility in GLDF allocations, and a significant reduction in funds during 2016 – 2018, which have complicated efforts of *aimags* and *soums* to undertake annual forward planning and budgeting, and also made it difficult to mobilize community participation. This situation potentially weakens the quality of local investment planning and spending, as well as citizen perceptions of the state's commitment to local service delivery. GLDF allocations have begun to increase again since 2018. Further assessment of the financing issues is envisaged during the AF, with a view to reinforcing predictability and equity in allocations.

40. A study conducted under the SLP3 in 2018 revealed that, during the period between 2013 and 2017, a total of 26,087 subprojects were planned with LDF financing across the country, of which 21,132 sub projects for the total amount of MNT 574,820,789,933 (approximately US\$230 million) were



completed (timely completion rate of approximately 81 percent). The investment projects spanned from rehabilitation of buildings, establishing/maintaining engineering lines and networks, wells and sewerage systems, bridges and foot walks, flood drainage, playgrounds, streetlights to purchasing equipment and furniture, etc. Given the nature of the investments allowed for LDF financing as per the IBL, the majority of the investments resulted in public goods (e.g., school renovation, street lighting, water supply, medical equipment, etc.) to improve the citizens' well-being rather than job or revenue generating investments to support people's livelihoods. However, in several instances, the LDF funds were used for the establishment of public goods, e.g., public showers, that are then privately operated on management contracts.

41. A technical audit conducted under the SLP3 in 2018 covered 33 investment projects, including 15 funded by the LDF and others by the state and local budgets, in a cost efficiency analysis where the cost of investment measured by the LDF financing provided is compared with the cost measured by the Asset Valuation Approach. For the small sample of subprojects included in this exercise, using the asset valuation method, LDF sub projects were found to be 20% more cost-effective than others funded by state and local budget investments.

42. A key element of the SLP3 has been the design and implementation of a performance-based funding mechanism associated with LDF funding to *soums*, to complement SLP3 capacity building activities based on the results of the 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 are to be studied further as part of the thematic studies planned under the AF. APA performance metrics related to efficiency include those related to planning and to execution. Furthermore, potential simplification of the APA tool through using data to be collected through the LDF MIS currently being developed and the possibility of institutionalizing the PBG mechanism would also be further explored during the period of the proposed AF.

## B. Technical

43. The core design features of the project are the APA and PBGs, which are intended to incentivize good performance of local authorities in the implementation of LDF. This approach is based on similar approaches in other countries which have supported improved decentralized service delivery. Technical features of the approach include:

- a. APA: Under the proposed AF, the APA data collection work and assessment will continue to be outsourced to private contractors for two reasons: (a) it is logistically not possible for the MOF or other government institution, or the PIU, to find the time needed to visit 330 *soums* each year, especially within the tight time window that is required; (b) the proposed approach provides a greater degree of independence in judgement, and of contractual accountability for performance, than may otherwise be possible. This outsourcing arrangement will require a substantial degree of oversight and quality control by the PIU. Within the implementation period of the proposed AF, the LDF MIS which is currently under development, will be rolled out to provide some of the data points currently collected through the APAs.
- b. PBG targets: The project has been designed with an annual target set to reward the best x% (e.g. 30%) of *soums*, and that each of these *soums* shall receive 25-40% of its previous year's LDF allocation. Then the amount to be set aside from the national pool would be  $[x\% \times 330] \times [25\%-40\% \times \text{average } \textit{soum} \text{ LDF allocation in the previous year}]$ . This arrangement has allowed the MOF to fix the size of



the PBG pool in advance in its budgeting process, while also ensuring that PBG allocations to eligible *soums* are an appropriate size.

- c. Management of funds through the government systems: The PBGs provided under the project will continue to be disbursed through the treasury system and will be co-mingled with state budget sources of the LDF. This approach provides an opportunity to ensure full institutionalization of the project activities into the government systems as the funds provided by the project will be subject to the same planning, budgeting, procurement, reporting, monitoring/evaluation, and auditing arrangements as government funds.
- d. Capacity building and information dissemination support: One of the key aspects of the SLP3 has been to provide sufficient technical assistance to build capacity at the local level through regular training activities (e.g., on the LDF guidelines, procurement requirements, etc.) to both local government officials as well as communities. In this regard, the proposed AF intends to employ the same mechanism, drawing on the existing Local Project Officers (LPOs) and *Aimag* Level Support Teams (ALSTs), and building on the community participation good practices identified and implemented to date under the SLP3.

44. The types of investments made under the LDF financing so far have been moderately consistent with the needs of the rural citizens as per the Public Opinion Survey conducted as part of the project's baseline study (2017) where 44.4 percent of the respondents identified more investments are needed in construction of facilities and renovations for hospitals, schools, public showers, etc., and another 44.3 percent indicated investments are needed in supporting animal husbandry such as establishment of wells followed by 31.5 percent suggesting more investments needs in access to public services and 30.9 percent for small-scale local infrastructure. Moreover, 48.01 percent of the citizens surveyed indicated that the projects implemented with the LDF indeed address the priority issues of the *soums* and *baghs*. The project targets a significant improvement in these figures in its results framework.

### C. Financial Management

45. The project implementation and, consequently, financial management arrangements under the AF will be the same as under the parent SLP3 project. MOF will continue to be responsible for carrying out day-to-day implementation and coordination of the project activities under the AF through its current PIU, which is tasked with implementing the SLP3. The current PSC for SLP3 project will also be retained to continue to provide direction and oversight. The FM arrangements under the AF, including the handling of World Bank credit proceeds through the project's Designated Account (DA), will be managed by the PIU with proper approvals from MOF. The Designated Account (DA) currently used for drawing IDA funds from the World Bank, disbursing funds against eligible expenditures in carrying out SLP3 project activities will continue to be used by the PIU under the AF.

46. The World Bank conducted an FM capacity assessment of MOF pertaining to project implementation and concluded that the existing FM arrangements meet the World Bank's requirements and provide reasonable assurance that the IDA credit proceeds under the AF are used for the purposes for which the credit is provided. The Financial Management Volume of the PIM for the SLP3 has been further revised by the PIU and approved by the World Bank. Annex 1 provides additional information on FM arrangements.



#### D. Procurement

47. The PIU of the original project will continue to be responsible for procurement, and implementation of those activities. The PIU satisfactorily prepared and implemented the parent project and has extensive experience with World Bank procurement. The procurement capacity assessment of the PIU determined that the PIU and its procurement staff have satisfactory experience with World Bank procurement procedures and the PIU has strong capacity to carry out procurement and implementation of the goods and consulting services contracts under the AF. Key risks were identified, and mitigation measures were proposed, as detailed in Annex 1.

48. Procurement for the project will be carried out in accordance with the World Bank's Procurement Regulations for IPF Borrowers, dated July 2016 and revised in November 2017 and August 2018, as required by the provisions of the Financing Agreement. In this project, the World Bank's Systematic Tracking of Exchanges in Procurement (STEP) will be used to prepare, clear, and update Procurement Plans and conduct all procurement transactions.

49. **Based on the project requirements, operational context, economic aspects, technical solutions, and market analysis, a Project Procurement Strategy Document (PPSD) was developed for the project by the PIU.** The main conclusions include that there will be much of the same type of activity and procurement as during the implementation of the parent project. There will not be any large contracts with open international market competition. All procurement is targeted to the local market. Based on the experience in the parent project, consulting services will be open to the national market, and national firms may participate individually or form associations to achieve the best fit-for-purpose and value-for-money. Based on the PPSD, the Procurement Plan for the project has been prepared by the PIU and agreed with the Bank.

#### E. Social (including Safeguards)

50. The AF will continue the activities related to strengthening of safeguards capacity under Component 1, which is Capacity building for local governance. Given the project's national coverage, OP 4.10 Indigenous Peoples will remain triggered and no new social safeguards instruments are anticipated under AF project. The AF will continue to strengthen measures to facilitate the participation of ethnic minority groups per the Indigenous People Plan (IPP) prepared under SLP3.

51. **Consultation and Disclosure of safeguard instrument.** The Environmental and Social Management Plan (ESMP) and the Indigenous Peoples Plan (IPP) of the parent project have been revised based on the implementation experience under the parent project to date. Project stakeholders were consulted through workshops held in Murun, Khuvsgul aimag on January 7, 2020 and in Ulaanbaatar on January 15, 2020, and the comments and opinions of stakeholders were considered and incorporated as appropriate into the mitigation measures of the ESMP. The final ESMP and IPP were publicly disclosed on the Borrower's website on February 27, 2020. The final ESMP and IPP were disclosed on the Bank's website on March 1, 2020.

#### F. Environment (including Safeguards)



52. The proposed 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, and the AF will continue the parent project activities and increase the emphasis on the Capacity Building for Local Governance and Livelihoods (Component 1) activities under the Project. The proposed project activities of the AF will not trigger new safeguards policies or change the environmental category of the project.

53. The project activities will overall generate significant environmental benefits, although measures are required to enhance the benefits and to avoid the possibility of localized adverse impacts. The project has potentially adverse environmental impacts on environmentally sensitive areas, land degradation and water resources due to its broad geographic scope. 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.

54. The ESMP has been updated by the Borrower for particularly strengthening (i) 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) the monitoring of subprojects’ environmental impacts and Operational Health and Safety management during construction and operation phases; (iii) the auditing of ESMP implementation performance and proposal for improvement action plan.

**V. WORLD BANK GRIEVANCE REDRESS**

55. Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB’s Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB’s independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank’s attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank’s corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service>. For information on how to submit complaints to the World Bank Inspection Panel, please visit [www.inspectionpanel.org](http://www.inspectionpanel.org)

Not

**VI SUMMARY TABLE OF CHANGES**

	Changed	Not Changed
Results Framework	✓	
Components and Cost	✓	





Loan Closing Date(s)	✓	
Implementing Agency		✓
Project's Development Objectives		✓
Cancellations Proposed		✓
Reallocation between Disbursement Categories		✓
Disbursements Arrangements		✓
Safeguard Policies Triggered		✓
EA category		✓
Legal Covenants		✓
Institutional Arrangements		✓
Financial Management		✓
Procurement		✓
Other Change(s)		✓

**VII DETAILED CHANGE(S)**

**COMPONENTS**

Current Component Name	Current Cost (US\$, millions)	Action	Proposed Component Name	Proposed Cost (US\$, millions)
Capacity Building for Local Governance and Livelihoods	6.00	Revised	Capacity Building for Local Governance and Livelihoods	9.40
Good Governance Performance-Based Support Program	21.60	Revised	Good Governance Performance-Based Support Program	29.30
Project Management and Monitoring and Evaluation	3.20	Revised	Project Management and Monitoring and Evaluation	4.10
<b>TOTAL</b>	<b>30.80</b>			<b>42.80</b>





<b>LOAN CLOSING DATE(S)</b>					
<b>Ln/Cr/Tf</b>	<b>Status</b>	<b>Original Closing</b>	<b>Current Closing(s)</b>	<b>Proposed Closing</b>	<b>Proposed Deadline for Withdrawal Applications</b>
IDA-54870	Effective	31-Dec-2018	31-Oct-2020	31-Oct-2022	28-Feb-2023
TF-A0794	Effective	30-Jun-2018	30-Jun-2020	30-Jun-2020	30-Oct-2020

**Expected Disbursements (in US\$)**

<b>Fiscal Year</b>	<b>Annual</b>	<b>Cumulative</b>
2014	0.00	0.00
2015	0.00	0.00
2016	0.00	0.00
2017	0.00	0.00
2018	0.00	0.00
2019	0.00	0.00
2020	0.00	0.00
2021	5,200,000.00	5,200,000.00
2022	5,200,000.00	10,400,000.00
2023	1,600,000.00	12,000,000.00

**SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)**

<b>Risk Category</b>	<b>Latest ISR Rating</b>	<b>Current Rating</b>
Political and Governance	● Substantial	● Substantial
Macroeconomic	● Moderate	● High
Sector Strategies and Policies	● Moderate	● Moderate
Technical Design of Project or Program	● Moderate	● Moderate
Institutional Capacity for Implementation and Sustainability	● Substantial	● Substantial
Fiduciary	● Substantial	● Substantial
Environment and Social	● Moderate	● Moderate



Stakeholders	● Substantial	● Substantial
Other		
Overall	● Substantial	● Substantial

**LEGAL COVENANTS – Mongolia Third Sustainable Livelihoods Project - Additional Financing (P173126)**

**Sections and Description**

**Institutional Arrangements**

Financing Agreement: Schedule 2, Section I.A  
Recurrent, Continuous

The Recipient shall (i) maintain a Steering Committee throughout the Project implementation period, with functions, staffing and resources satisfactory to the Association; and (ii) designate a project director, and at the Aimag-level, local project officers; all on terms of reference and with qualifications acceptable to the Association to provide support for the implementation of the Project.

**Project Implementation**

Financing Agreement: Schedule 2, Section I.A  
Recurrent, Continuous

The Recipient shall carry out the Project in accordance with the Project Implementation Manual, and not amend, waive or abrogate any provisions of the manual unless the Association agrees otherwise in writing.

**Project Implementation**

Financing Agreement: Schedule 2, Section I.A  
By December 1, Annually

The Recipient shall contract independent Good Governance Performance Assessment Team to carry out the annual performance assessment of the Soums.

**Good Governance Performance-based Financing**

Financing Agreement: Schedule 2, Section I.B  
Recurrent, Continuous

The Recipient shall make Good Governance Performance-based Financing available to an eligible Soum in accordance with the eligibility criteria and administration arrangements set out in the Financing Agreement and the Project Implementation Manual.

**Environmental and Social Safeguards**

Financing Agreement: Schedule 2, Section I.C

Recurrent, Continuous

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Safeguards Instruments; and shall not amend, abrogate, repeal, suspend or waive any of their provisions unless the Association agrees otherwise, and report on their status of implementation as part of the project reports.



## Conditions



**VIII. RESULTS FRAMEWORK AND MONITORING**

**Results Framework**

**COUNTRY: Mongolia**

**Mongolia Third Sustainable Livelihoods Project - Additional Financing**

**Project Development Objective(s)**

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

**Project Development Objective Indicators by Objectives/ Outcomes**

Indicator Name	DLI	Baseline	End Target
<b>Improve governance and community participation for the planning and delivery of priority investments</b>			
Average soums' Annual Performance Assessment score (Percentage)		30.37	70.00
<i>Action: This indicator has been Revised</i>			
Percentage of soums' citizens surveyed reporting that LDF financed investments reflect their priority needs. (Percentage)		48.01	65.00
<i>Action: This indicator has been Revised</i>			
Female (Percentage)		47.60	65.00
<i>Action: This indicator has been Revised</i>			
Participation: Percentage of bagh households participating in public bagh meetings (Percentage)		49.32	60.00



Indicator Name	DLI	Baseline	End Target
Number of subprojects completed (Number)		17,900.00	29,900.00
<i>Action: This indicator has been Marked for Deletion</i>			
Direct project beneficiaries (Number)		0.00	1,637,197.00
<i>Action: This indicator has been Marked for Deletion</i>			
Female (Number)		0.00	300,000.00
<i>Action: This indicator has been Marked for Deletion</i>			

**Intermediate Results Indicators by Components**

Indicator Name	DLI	Baseline	End Target
<b>Capacity Building for Local Governance and Livelihoods</b>			
Percentage of trained Aimag Level Support Team and national government staff applying skills learned through the project (planning, procurement, financial management, community participation and M&E) (Percentage)		0.00	80.00
<i>Action: This indicator has been Revised</i>			
Percentage of soums' government staff trained by Aimag Level Support Team with improved capacity (applying learned skills in planning, procurement, FM, community participation and M&E) (Percentage)		0.00	85.00



Indicator Name	DLI	Baseline	End Target
<i>Action: This indicator has been Revised</i>			
Number of Aimag Level Support Team, national government staff, and soums' government staff trained (Number)		0.00	20,000.00
<i>Action: This indicator has been Revised</i>			
Guidelines necessary to improve governance and community participation for the planning and delivery of LDF developed (Yes/No)		No	Yes
<i>Action: This indicator has been Marked for Deletion</i>			
Number of LDF-related or other MoF regulations, which have been submitted for MoF review, with SLP3 support (Number)		0.00	4.00
<i>Action: This indicator has been Revised</i>			
<b>Good Governance Performance-Based Support Program</b>			
Percentage of bagh citizens who know the approximate current annual LDF allocation for their soum (Percentage)		1.04	25.00
Female (Percentage)		0.86	25.00
Number of subprojects completed (Number)		17,900.00	36,000.00
<i>Action: This indicator is New</i>			
Direct project beneficiaries (Number)		0.00	600,000.00
<i>Action: This indicator is New</i>			



Indicator Name	DLI	Baseline	End Target
Female (Number)		0.00	300,000.00
<i>Action: This indicator is New</i>			

**Monitoring & Evaluation Plan: PDO Indicators**

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
Average soums' Annual Performance Assessment score	The Annual Performance Assessment is an index assessing the overall governance of LDF based on a list of weighted indicators.	Annual	Annual Performance Assessment	Assessment and review of meeting minutes, questionnaires, documents, etc.	Consulting firms under oversight of PIU
Percentage of soums' citizens surveyed reporting that LDF financed investments reflect their priority needs.	This indicator assesses the extent to which LDF investments are in line with citizens' demands. It is defined as citizens reporting that financed investments address their priority needs. It will be important to be cautious with this indicator, as it will be impacted by the reduction in LDF funding.	Baseline and end-line of project	Household survey/evaluation	Household survey/evaluation	Consulting firms under oversight of PIU



Female	Gender disaggregation of the parent indicator	Baseline and end-line of project	Household survey/evaluation	Household survey/evaluation	Consulting firms under oversight of PIU
Participation: Percentage of bagh households participating in public bagh meetings	This is an indicator to be measured by the end-line survey of the project so no change to the current value at this time	Baseline and end-line of project	Household survey/evaluation	Household survey/evaluation	Consulting firms under oversight of PIU
Number of subprojects completed	This indicator is measured annually, so the 2019 value is to be measured as of December 31, 2019 and get reported on the next project ISR. Therefore, there is no change to the current value at this time.	Annually	Data will be collected annual through LPOs and a technical audit of sample of sub-projects will be conducted to assess the quality	Data will be collected annual through LPOs and a technical audit of sample of sub-projects will be conducted to assess the quality	LPOs and Consulting firm for technical audit
Direct project beneficiaries	The legacy LDF MIS does not contain information on the number of LDF sub project beneficiaries and a new MIS is currently under development. Therefore, reliable information on the number of beneficiaries is currently not available to	Annually	Project reports	Project reports	Local Project Officers under responsibility and supervision of PIU M&E Officer





	update the indicator with a current value.				
Female	The project is about improving LDF impact through better targeting, planning and efficiency. The number of the beneficiaries is the rural population of Mongolia.	Annually	Project reports	Project reports	Local Project Officers under responsibility and supervision of PIU M&E Officer

**Monitoring & Evaluation Plan: Intermediate Results Indicators**

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
Percentage of trained Aimag Level Support Team and national government staff applying skills learned through the project (planning, procurement, financial management, community participation and M&E)		Annual.	Quantitative and qualitative assessment of skills adoption/application of Aimag Level Support Team and national government staff trained under the project. Quantitative and		SLP3, MOF.



			qualitative assessment of a sample of Aimag Level Support Team and national government staff trained.		
Percentage of bagh citizens who know the approximate current annual LDF allocation for their soum	Baseline and end-line beneficiary survey results.	Baseline in Q4 CY2017 and End-line in Q3 CY2020.	Baseline and endline beneficiary survey results. Baseline in progress. End line scheduled for 2020.		SLP3, MOF.
Female	Baseline and end-line beneficiary survey results.	Baseline in Q4 CY2017 and End-line in Q3 CY2020.	Baseline and end-line beneficiary surveys.		SLP3, MOF.
Percentage of soums' government staff trained by Aimag Level Support Team with improved capacity (applying learned skills in planning, procurement, FM, community participation and M&E		Annual.	Quantitative and qualitative assessment of a sample of the Soums' govern		SLP, MOF.



			ment staff.		
Number of Aimag Level Support Team, national government staff, and soums' government staff trained		Annual.	Annual project reports.		SLP, MOF.
Number of subprojects completed	This indicator assess the scale of sub-projects financed by LDF that are completed and delivering the intended benefits. The data will be collected by LPOs	Annually	Data will be collected annual through LPOs and a technical audit of sample of sub-projects will be conducted to assess the quality	Data will be collected annual through LPOs and a technical audit of sample of sub-projects will be conducted to assess the quality	LPOs and Consulting firm for technical audit
Guidelines necessary to improve governance and community participation for the planning and delivery of LDF developed		Annual.	Annual project reports.		SLP3, MOF.
Direct project beneficiaries	The project is about improving LDF impact through better targeting, planning and efficiency. The number of the beneficiaries is the rural population of Mongolia.	Annually	Project reports/LDF MIS under development	Project reports	Local Project Officers under responsibility and supervision of PIU M&E Officer
Female	The project is about improving LDF impact	Annually	Project reports/LDF	Project reports	Local Project Officers under responsibility and



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	through better targeting, planning and efficiency. The number of the beneficiaries is the rural population of Mongolia.		MIS under development		supervision of PIU M&E Officer
Number of LDF-related or other MoF regulations, which have been submitted for MoF review, with SLP3 support		Annual.	Annual project reports.		SLP3, MOF.



## ANNEX 1. IMPLEMENTATION ARRANGEMENTS

### Institutional and Implementation Arrangements

1. The AF will continue to be implemented by the dedicated PIU established under the MOF and a Project Steering Committee, and through existing *Aimags* Level Support Teams (ALSTs) and assigned *soum* officials. PIU staffing will be reinforced in the area of citizen engagement and community participation. The implementation period will be from the date of Effectiveness to October 31, 2022.

### Financial Management

2. The MoF will manage the World Bank credit proceeds from the AF and oversee the project DA. The current PIU of the parent SLP3 project will be responsible for the implementation and management of the AF with the same structure as the AF activities will be mainly scaling up the current activities under the SLP3 project.

3. The FM team assessed the adequacy of the FM capacity for the AF. The assessment, based on the World Bank Directive: Financial Management Manual for the World Bank Investment Project Financing Operations, concluded that the project meets the World Bank FM requirements. In the FM team's opinion, the current FM arrangements in place for SLP3 are acceptable by the Bank and are adequate for implementing the AF operation and for providing reasonable assurance that the proceeds of the IDA credit under the AF are used for the purposes for which the credit is provided. The financial management arrangements described in this section reflect the latest FM systems put in place for implementing the SLP3 parent project that will also be used for the implementation of the AF.

4. FM risk is the risk that the credit proceeds will not be used for the purposes intended and is a combination of country, sector, and project-specific risk factors. However, the FM capacity assessment did not identify major risks associated with the current implementation arrangements as the currently existing PIU has gained extensive knowledge and experience with regards to implementing the Bank financed SLP3 project and will be asked to mainly continue carrying out the same activities under the AF.

5. The residual FM risk for the AF is assessed as **Substantial**. This is mainly a reflection of the current risk assessment yielding Substantial risk rating for the SLP3 project due to low FM capacity at local levels where the operation will continue to have significant activities and existence of numerous project bank accounts that the project must continue to frequently reconcile and account for as well as closely manage the exchange rates used for financial reporting purposes to minimize losses caused by exchange rate fluctuations. As a risk mitigating measure, the PIU will continue to closely work with the LPOs and guide them through the proper financial reporting and documentation practices and ensure frequent reconciliation of various accounts when reporting to the Bank on disbursement. The Bank FM team will keep closely supporting the PIU in this and other financial management matters as needed.

6. **Disbursement and flow of funds arrangements.** The disbursement and flow of funds for the AF will be the same as under the existing SLP3 project except for the absence of the funding from the Swiss Development Cooperation under the AF which will expire in June 30, 2020. SLP3 project's main DA linked with IDA credit funds will continue to be used by the PIU with the purpose of drawing funds from the



World Bank, disbursing funds against eligible expenditures in carrying out project activities under the AF. The ceiling of the DA will be discussed and agreed between the Bank and the recipient and will be specified in the project Disbursement Letter (DL) to be issued by the Bank.

7. Four disbursement methods will be available for the AF including advance, reimbursement, direct payment, and special commitment. The primary method of disbursement for the project will be the advance method. Supporting documents for the Bank disbursements will be statements of expenditures (SOEs). The detailed requirements will be laid out in the DL.

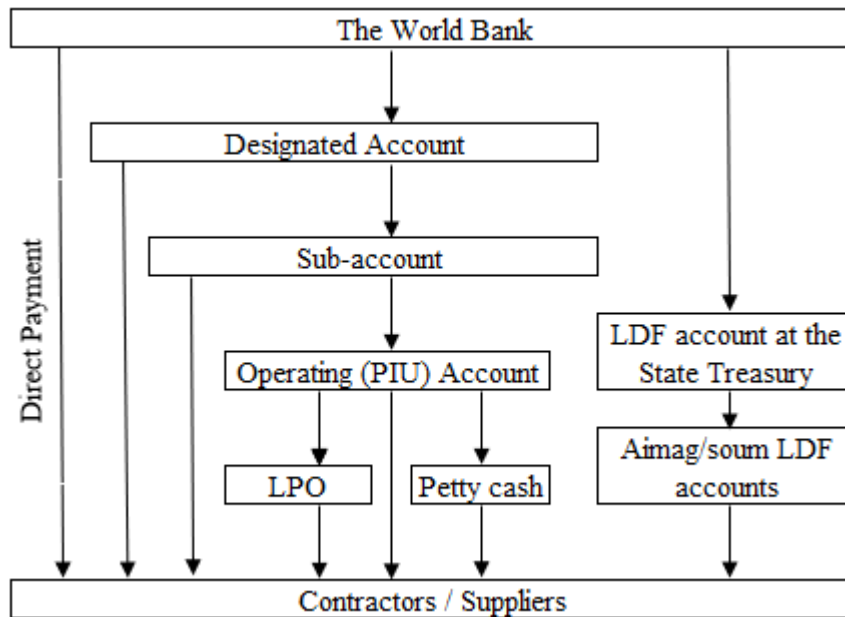
8. Funds will be disbursed from the Bank to the project DA in USD. The DA will mainly be used for USD transactions. For all other MNT local currency payments, an investment sub-account will be used that will be replenished from the DA. The project's investment sub-account in MNT will be maintained with the state Treasury. The disbursement against eligible project expenditures from the DA and the investment sub-account will be signed off by authorized representatives from MOF. Specific project payment approval procedures will be documented in the FM Manual. SOEs will report the payments made by the project. The ceiling will not be established for the investment sub-account but it will be dictated by the overall ceiling set for the DA.

9. The Ministry of Finance will ultimately be responsible for managing the MNT sub-account and establishing the procedures handling all MNT transactions including PIU operating expenses and non-operating expenses in accordance with the Government financial regulations. To ensure efficiency in project payment authorization procedures, the MOF will utilize a separate operating (PIU) sub-account for PIU's incremental operating costs with signing authority being delegated to the PIU coordinator and accountant in line with its internal Treasury procedures and regulations. The operating sub-account would be replenished from the investment sub-account based on quarterly operating budgets approved by MOF.

10. As the operation involves many activities to be carried out at local levels, it will continue utilizing local commercial bank accounts in each of the 21 *aimags* for making operating expense-related disbursements locally as currently done under the SLP3. The signing authority on these local accounts belong to the local project officers (LPOs) and Finance and Treasury Division heads at *aimag* levels. These bank accounts are referred to as LPO accounts.

11. The PIU may manage petty cash up to a ceiling to be approved under the project's internal control procedures.

12. The following chart shows the general flow of funds for the project as described:



13. The PIU will be directly responsible for the management, maintenance, reconciliation of the DA, sub-accounts and cash transactions and will prepare and submit to the Bank withdrawal applications (WAs) with SOEs for documentation of project expenditures per frequency stated in the DL. The WAs will be reviewed and signed off by the authorized representatives from the MOF before being submitted to the Bank for review and processing.

14. Primary financial documents maintained for the project shall be made available for review by the Bank’s supervision missions, external auditors, internal auditors, MOF and other relevant local inspections. If the auditors or the Bank find disbursements that are not justified by supporting documentation or made for ineligible expenditures, the Bank may request the funds spent on ineligible expenditures to be refunded to the Bank or take other actions in line with relevant Bank policies.

15. **Budgeting.** The PIU will continue to prepare an annual budget/disbursement plan which will be submitted to the PSC for approval and to the World Bank for no-objection. Thereafter, it shall be reflected in the state budget. The PIU will conduct variance analyses, report them on the quarterly interim financial reports (IFRs); provide reasons why differences occur between the planned (budgeted) and actual expenses, if any; and take necessary actions to ensure the project is implemented as planned.



16. The project proceeds will be disbursed against eligible expenditures (inclusive of taxes) according to the following table:

Category	Amount of IDA Credit (USD)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Goods, non-consulting services, consulting services, training, and incremental operating costs for the Project	4,300,000	100%
(2) Good Governance Performance-Based Grants	7,700,000	100%
<b>TOTAL AMOUNT</b>	12,000,000	

17. **Accounting and financial reporting.** The project accounting will follow the Government’s accounting framework which is based on International Public Sector Accounting Standards (IPSAS). IPSAS was adopted by Mongolia in 2003. For this project, the PIU will continue to use its current accounting software for accounting and reporting purposes. The project financial statements will include the following:

- Balance sheet
- Statement of sources and uses of funds
- Statement of uses of funds by project components
- Statement of DA
- Statement of Sub-DA
- Statement of OA
- Notes to the financial statements (for annual financial statements for audit)

18. The PIU will continue to prepare IFRs, inclusive of the above reports, on a quarterly basis, directly from the accounting software and submit the reports to the Bank for review within 45 days after the end of each calendar quarter.

19. As the PIU will centrally manage and handle the project FM, it will be responsible for recording the project accounts, preparing project financial statements, and retaining all documentation supporting disbursements as well as processing the withdrawal applications during the life of the project.

20. **Internal control.** The project FM Manual will be updated by the PIU to reflect mainly the latest disbursement arrangements under the AF as there will no longer be any funding from the SDC. The updated FM Manual will be followed for the procedures relating to proper authorization for payment requests, segregation of duties, LPO financial reporting requirements, and other specific internal control procedures and practices relating to the project’s FM. In addition, regular oversight by the PSC, periodic





supervision missions by the World Bank, annual financial audits by independent external auditors, and reports of public internal auditors will serve as mechanisms to ensure that the project's FM systems function effectively.

21. **Audit arrangements.** The World Bank requires the project financial statements to be audited in accordance with auditing standards acceptable to the Bank. Therefore, in line with other Bank-financed projects in Mongolia, the Mongolian National Audit Office will appoint an independent external auditor acceptable to the Bank to conduct annual audits of the project financial statements in accordance with the International Standards on Auditing and under the terms of reference satisfactory to the Bank. The audit will be financed from the project proceeds.

22. The annual audit report of project financial statements will be due to the Bank within six months after the end of each reporting period ending December 31. This requirement will be stipulated in the Financing Agreement and/or the DL.

23. **Supervision plan.** The supervision strategy for this project is based on its FM risk rating, which will be evaluated on a regular basis by the FM specialist in line with the Bank's FM guidance and in consultation with the project TTL.

#### **Procurement**

24. **Applicable procurement rules and procedures.** Procurement for the project will be carried out in accordance with the World Bank's 'Procurement Regulations for IPF Borrowers', dated July 2016 and revised November 2017 and August 2018, as required by the provisions of the Financing Agreement. Also applicable to the project will be the World Bank's 'Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants', dated October 2006, and thereafter revised in January 2011 and July 1, 2016. In this project, the World Bank's STEP will be used to prepare, clear, and update Procurement Plans and conduct all procurement transactions. Accordingly, all the procurement activities under the proposed project will be entered, tracked, and monitored online through the system.

25. **Procurement Risk Assessment.** The procurement risk is rated as Moderate. The SLP-III PIU will continue to be the PIU for the AF and be responsible for procurement and implementation of those activities with the technical support from the MOF. The PIU has a satisfactory performance in preparing and implementing the original SLP-III and has rich experience in the World Bank procurement. The procurement capacity assessment of the PIU determined that the PIU and its procurement staff have extensive experience with the World Bank procurement procedures and the PIU has strong capacity in carrying out procurement and implementation of the goods and consulting services contracts under the AF. The key risks identified by the procurement capacity and risk assessment were (a) quality of the bidding documents, including technical specifications for procurement of goods and terms of references for consulting services; (b) possible delays and/or noncompliance because of differences between the World Bank Procurement Regulations (revised November 2017 and August 2018) and domestic procurement practice. With implementation of the proposed actions to strengthen procurement capacity (see the following paragraphs), the assessment concluded that the PIU will have adequate capacity to carry out procurement activities of the project.



26. **Mitigation measures.** Actions proposed to enhance the procurement capacity of the PIU to strengthen procurement and contract management under the project and to mitigate potential procurement risks have been agreed as follows:

- The MOF will provide technical support to the PIU in the process of preparing the technical specifications, bid evaluation, complaint handling, contract implementation, and so on.
- The PIU will send their staff to attend procurement training on the World Bank's new Procurement Regulations and will continue to do so throughout the project implementation. They should be present in the bid evaluation committee and introduce the World Bank's policies on the evaluation and clarifications and the main requirements in the Request for Proposal and Request for Bid documents before the evaluation starts.

27. **PPSD.** Based on project requirements, operational context, economic aspects, technical solutions, and market analysis, a draft PPSD has been developed for the project by the PIU with support from the World Bank. The PPSD informs whether the local or international market will be interested and is capable to execute the contracts (goods and consulting services) included in the project. There is not any large contract envisaged to reach out to the international market. All contracts are targeting the local market. Based on the experience in the original SLP-III, national firms may participate individually or form associations to participate in the consulting services contracts, to achieve the best fit-for-purpose and value-for-money.

28. **Procurement Plan.** Based on the PPSD, the Procurement Plan for the project was prepared by the PIU and agreed by the World Bank. The Procurement Plan will be updated at least annually to (a) reflect project implementation, (b) accommodate changes to be made, and (c) add new contracts as needed for the project.



**ANNEX 2. INDICATIVE WORK PLAN AND COSTING FOR THE AF**

<b>2021</b>	
<b>Component 1: Capacity Building for Local Governance and Livelihoods</b>	<b>1,960,000</b>
Module 1,2 training	400,000
Pre-APA roadshow	60,000
Module 4,5 training	200,000
A3 certification training /Module 3 training	250,000
Environmental screening and mitigation training	70,000
LDF MIS training	50,000
LPO seminars	30,000
Cross learning / Soum-to-soum experience sharing	90,000
Communication/broadcasting	180,000
Printing, publication (Guideline, law and regulation)	40,000
Printing, publication (Communication)	100,000
International study visits (policy makers)	40,000
International study visit (soum officials, LPOs)	80,000
LDF policy consultancy	80,000
Use of technology in LDF planning (consultancy)	50,000
LDF workshops and seminars	50,000
ALST/LPO operating cost	50,000
LPO salary	140,000
<b>Component 2: Good Governance Performance-Based support Program</b>	<b>3,505,000</b>
APA	200,000
Assesment of aimag/UB LDFs	100,000
APA training + monitoring	25,000
PBG	3,180,000
<b>Component 3: Project Management and M&amp;E</b>	<b>367,000</b>
Process review	100,000
PIU staff	200,000
PIU operating cost	57,000
Financial audit	10,000
<b>Total</b>	<b>5,832,000</b>



<b>2022</b>	
<b>Component 1: Capacity Building for Local Governance and Livelihoods</b>	<b>1,449,000</b>
Module 1,2 training	300,000
Module 4,5 training	200,000
A3 certification training /Module 3 training	250,000
Environmental screening and mitigation training	70,000
LDF MIS training	50,000
LDF policy consultancy	80,000
Cross learning / Soum-to-soum experience sharing	80,000
Communication/broadcasting	150,000
Printing, publication	70,000
Project closing workshops	40,000
ALST/LPO operating cost	42,000
LPO salary	117,000
<b>Component 2: Good Governance Performance-Based support Program</b>	<b>4,194,000</b>
APA	200,000
APA training + monitoring	24,000
PBG	3,970,000
<b>Component 3</b>	<b>525,000</b>
Endline Survey	200,000
Technical audit	100,000
PIU staff + Backstopping	159,000
PIU operating cost	50,000
Financial audit	16,000
<b>Total</b>	<b>6,168,000</b>