

**INTEGRATED SAFEGUARDS DATA SHEET
APPRAISAL STAGE**

Report No.: ISDSA8594

Date ISDS Prepared/Updated: 30-Apr-2014

Date ISDS Approved/Disclosed: 01-May-2013, 02-May-2014

I. BASIC INFORMATION

1. Basic Project Data

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|--|--|------------------------------|------------------------------|
| Country: | Mongolia | Project ID: | P125232 |
| Project Name: | Third Sustainable Livelihoods Project (P125232) | | |
| Task Team Leader: | Andrew D. Goodland | | |
| Estimated Appraisal Date: | 19-Feb-2013 | Estimated Board Date: | 06-Jun-2014 |
| Managing Unit: | EASCS | Lending Instrument: | Investment Project Financing |
| Sector(s): | Sub-national government administration (50%), General agriculture, fishing and forestry sector (30%), Other social services (20%) | | |
| Theme(s): | Other environment and natural resources management (20%), Decentralization (20%), Rural services and infrastructure (20%), Other social protection and risk management (20%), Participation and civic engagement (20%) | | |
| Is this project processed under OP 8.50 (Emergency Recovery) or OP 8.00 (Rapid Response to Crises and Emergencies)? | | | No |
| Financing (In USD Million) | | | |
| Total Project Cost: | 36.20 | Total Bank Financing: | 24.80 |
| Financing Gap: | 0.00 | | |
| Financing Source | | | Amount |
| BORROWER/RECIPIENT | | | 0.00 |
| International Development Association (IDA) | | | 24.80 |
| SWITZERLAND Swiss Agency for Dev. & Coop. (SDC) | | | 11.40 |
| Total | | | 36.20 |
| Environmental Category: | B - Partial Assessment | | |
| Is this a Repeater project? | No | | |

2. 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.

3. Project Description

Component 1: Capacity Building for Local Governance and Livelihoods (US\$10.2 million)

The objective of this component would be to build the capacity at local and national levels for the implementation and further development of the Government's programs and mechanisms for supporting rural development.

At the local level, Soum governments will be challenged to effectively manage the significant increases in governance responsibilities and investment planning and execution delegated through the IBL and Soum Initiative. The project would include a four-year program of capacity building coaching and establishment of effective monitoring and evaluation systems to support all of Mongolia's soums. The objective of capacity building at soum level is twofold, touching political and administrative decentralization. Politically, the objective is to make participative processes in soums strong and functional in order to elicit citizen's preferences and make sure that soums respond to these preferences. Administratively, the objective is that soums have an effective, efficient, transparent and robust governance that is strategy-oriented, lawful and accountable at the same time.

To support this, training would be delivered in relevant topics, including:

- (a) Community participation in local development;
- (b) Local development planning, including for pastureland management;
- (c) Budget preparation and adoption;
- (d) Budget execution, including procurement; and,
- (e) Reporting, monitoring and evaluation and management information systems.

This training and technical assistance would primarily be delivered through Soum Support Teams, based in each aimag. These teams would be provided with technical backstopping from national Technical Assistance providers, which would support the development of training curricula and materials and training of trainers. This system should enable close and frequent contact between the aimag level teams and the soum authorities and citizens.

At the national level, the project would provide technical support to Government to develop and strengthen the Soum Initiative and LDF, including the possible integration of the two. For the Soum Initiative, which is still a piloting stage, technical assistance would be provided to MoED to elaborate and scale-up the program. This could include the review and assessment of the piloting phase of the Soum Initiative, the development of guidelines, manuals, rules and regulations governing the program as it scales up, and the strengthening of national level systems for the administration and monitoring of the program.

Component 2: Good Governance Performance-Based Grants (PBGs) (US\$21.7 million)

Component 2.1: Performance-based Grants (US\$20.6 million)

To provide incentives for soums to achieve good governance objectives, a performance-based grant (PBG) mechanism would be implemented under SLP3, explicitly tied to the LDF. The objective of the PBGs would be to enhance good governance in the entire budgeting process starting with financial and policy planning, including budget preparation and adoption, budget execution, accounting, reporting, internal and external control and public scrutiny. Financing and execution of public capital investments at soum level and below is an important part of the budgeting process.

Particular importance would be given to citizen participation, alignment of soum budgets with bagh citizen priorities and citizen satisfaction with the LDF process and outcomes. Based on a soum performance monitoring system, all soums will be rated annually by independent experts against a set of agreed performance indicators. Those soums meeting or exceeding agreed targets would receive a percentage of the prior year's LDF allocation as budget support in the following financial year. Currently it is proposed that this top-up would represent approximately twenty five percent of the previous year's allocation, though this would be reviewed during the project and revised if necessary. PBGs will be disbursed to qualifying soums through MOF Treasury systems along with LDF allocations.

Component 2.2: Annual Performance Assessments (US\$0.9 million)

The monitoring and assessment system for PBGs would be implemented by the PIU. The assessment and ranking of soum performance would be outsourced to a politically neutral third party (Good Governance Performance Assessment Teams). SLP3 would finance the training of these teams. The PIU would oversee the capacity building to ensure comparability between the yardsticks used to measure performance from one to another part of the country and to ensure political neutrality.

Component 3: Project Management and Monitoring and Evaluation (US\$3.6 million)

A Project Implementation Unit (PIU) would be established for SLP3 within MoED. The third component would support this implementation structure, financing the costs of staff, related expenditures and the M&E, procurement and FM functions. M&E support would be supported by SDC and include developing a Management Information System for the LDF, and conducting a baseline, mid-term and end of project impact assessment.

4. 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).

5. Environmental and Social Safeguards Specialists

Songling Yao (EASCS)

Feng Ji (EASCS)

| 6. Safeguard Policies | Triggered? | Explanation (Optional) |
|--------------------------------------|-------------------|---|
| Environmental Assessment OP/ BP 4.01 | Yes | Under the Local Development Funds, local governments will be able to finance investment priorities identified in consultation with local communities. These investments are likely to be similar in nature to those supported under the first and second phases on the Program under project funds (under SLP2 the project supported the Community Initiatives Fund which was used to finance small scale works and goods to increase |

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| | | <p>local access to social services, and the Pastoral Risk Management Fund, which supported investments identified in soum level pastoral management plans). Typical investments therefore included school and school dormitory renovation and refurbishment, health care center renovation and equipment, improved cultural centers and recreational facilities, and for PRM, improved storage facilities for animal feed and fodder, renovation of wells for livestock and the protection of crop land and fencing of natural springs also for protection. The estimated size of support under the LDF will be in the order of USD250k per year, so the size of individual sub-project will remain to be small.</p> <p>Based on the experience from SLP and SLP2, the SLP3 project would have a broadly positive environmental impact. But it may also bring adverse impacts, including (i) there is a risk that herders will seek to increase their numbers of livestock which would have implications for land degradation; (ii) the project will finance the rehabilitation of existing wells. Though probably negligible, there may be adverse impacts of wells on groundwater recharge due to the extraction of groundwater from the wells.</p> <p>All investments under the project would be subject to the environmental guidelines under the Ministry of Environment and Green Development. As part of the annual assessment of soum performance, performance in applying environmental guidelines and ESMP will be closely monitored, and if they are not reached, soums would not qualify for the performance based grants under the project.</p> |
| Natural Habitats OP/BP 4.04 | Yes | Mongolia's pasture lands are natural habitats in the sense that they conform to the definition in OP4.04 on Natural Habitats. The SLP3 could have adverse impacts on these natural habitats. |
| Forests OP/BP 4.36 | No | |
| Pest Management OP 4.09 | No | |
| | No | |

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|--|-----|---|
| Physical Cultural Resources OP/ Indigenous Peoples OP/BP 4.10 | Yes | <p>There are more than 30 ethnic groups in Mongolia. All groups are either the descendants of Mongolian nomadic tribes, or are groups of Turkic origin who have become Mongolised over time. The Khalkh make up the majority and comprise over 90% of the population. Except for the Kazakh minority group residing in western Mongolia, all ethnic groups speak Mongolian dialects which are comprehensible to speakers of Khalkha and to each other. The Kazakhs also are the only ethnic group that relies primarily upon a distinct spoken language.</p> <p>The majority of Mongolia's ethnic minority groups share similar customs, traditions and systems of production as the Khalkh. With the exception of the predominantly Muslim and linguistically differentiated Kazakhs in western Mongolia, and traditionally nomadic reindeer-herding Tsaatan peoples in the north, Mongolia's ethnic groups are not considered to be economically, socially or legally marginalized or otherwise disadvantaged in a manner which would restrict their ability to participate in the project.</p> <p>The project will be nationwide in scope and therefore cover those areas populated by all ethnic groups including Kazakh and Tsaatan.</p> |
| 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 | |

II. 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:

General: The project would finance similar types of investments as were financed under SLP2 (the previous phase of the Program), typically small scale works and goods. In this regard, the same safeguards issues apply with similar associated impacts. No large scale, significant or

irreversible impacts are anticipated.

Social: One of the objectives of the project is to increase and institutionalize community engagement in local development processes, therefore, SLP3 would further reduce the vulnerability of rural communities and enhance the security and sustainability of herder households' livelihoods throughout the country. The project will be nationwide in geographical coverage. There are more than 30 ethnic groups in Mongolia, of whom the Khalkh make up the majority and comprise over 90% of the population. The majority of Mongolia's ethnic minority groups share similar customs, traditions and systems of production as the Khalkh, with the exception of the predominantly Muslim and linguistically differentiated Kazakhs in western Mongolia, and traditionally nomadic reindeer-herding Tsaatan peoples in the north. These two exceptional ethnic minority groups have been identified as Indigenous Peoples as defined by OP4.10 Indigenous Peoples. As identified from the Tsaatans consultation, the principal issue is that those who maintain traditional lifestyles in remote areas would be excluded from participating in project decision-making processes, and hence would not be afforded equitable opportunities to benefit. Furthermore, for the remote Tsaatans, traditional tribal decision-making processes differ from other citizens' khurals.

The project does not envisage any land acquisition or population resettlement.

Environment: Overall, the project is expected to generate significant environmental benefits. It would not have any potential large scale, significant and/or irreversible environmental impacts. However, the project carries risks/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. Similar to the SLP2, the project could have a positive environmental impact on reduced land degradation. But the project, if not managed well, has the potential to degrade land, biodiversity as well as surface water and groundwater resources through the effects of livestock, over-extraction from rehabilitated or newly-created wells, surface water capture facilities and localized pollution from sheep/goat dips. Although the impact of increased extraction of groundwater from the relatively shallow wells is probably negligible, there may be a cumulative effect of wells on groundwater recharge. Despite the focus of the project on a sustainable distribution of livestock, there is a risk that herders will seek to increase their numbers of stock. More livestock in combination with an adverse distribution of livestock would have implications for land degradation, biodiversity and water resources.

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

There are no potential and/or long term impacts due to anticipated future activities

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

The project will support small scale works at the local level. There were two main options considered for this: i) to co-mingle funds with the Government Treasury system through its Local Development Fund (LDF) and therefore subject to country systems; or ii) to operate a separate IDA financed "window" for the LDF top up, as was done with SLP2. From a safeguards perspective, operating a project top-up funds to the LDF would provide greater oversight. However, the first option was preferred as this is working directly with the government systems and therefore contributes more to the project's objective of institutionalizing approaches. It should be noted that for the types of investment under the LDF, government environmental policies, if applied correctly and rigorously, meet the Bank safeguard requirements. The ESMP would serve

as the guideline to local authorities to implement environmental controls. For social safeguard issues, which are focussed on IPs, the approach taken under SLP2 would be used.

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.

The project will implement those mitigation measures which have been proved effective under previous projects. The ESMP has been updated to reflect the experience and lessons learned, and include carefully designed mitigation measures. A series of mitigation measures include, among others:

- a) Each soum has prepared its Pastoral Management Plan in accordance with the Guidelines approved by the Agency for Land Administration, Geodesy and Cartography, including maps of the location of environmentally-sensitive areas (such as degraded areas, areas of importance for threatened wildlife, and watersheds of critical importance for downstream drinking water supplies). The project will support capacity for preparation of PRM plans and maps to avoid impacts on sensitive areas.
- b) The current Environment Guidelines and screening system will be incorporated into the LDF project screening process, updated to reflect the experiences learned from the previous projects.
- c) Simple Environmental Codes of Practice (ECOP) for small scale of construction would be applied to the LDF, consistent with current environmental regulation, e.g. the revitalization of existing wells, renovation works on different facilities (schools, health care center), improvement of cultural centers, recreational facilities and storage facilities for animal feed and fodder.
- d) The project will continue to conduct an annual Environmental Audit to review the performance of the ESMP implementation as part of Annual Performance Assessments. Performance with respect to environmental regulation application will be included in the criteria to qualify for PBGs.
- e) The project will develop local level capacity to implement the ESMP, through the Soum Support Teams.

The updated ESMP specifies the monitoring plans, such as monitoring on land degradation and water resource, institutional arrangement, capacity building activities, and the budget for the ESMP implementation for the project.

Regarding IPs: As its scope is the same with the second phase of the project, the SLP3 will be carried out nationwide including the areas populated with the Kazakh groups and Tssatan groups who have been identified as Indigenous Peoples as per the definition of OP4.10. Therefore, OP4.10 thus applies to the SLP3 as it did in the second phase from which the Project Indigenous Peoples Plan (IPP) was developed. The SLP3 will continue to follow the existing IPP, which has been updated on behalf of the Kazakh and Tssatan communities based on their demand-led consultation and participation in the project context of the third phase. As a result, special planning measures have been incorporated for project activities in Bayan Olgii and Khovd aimags where the Kazakh live, to ensure equitable Kazakh representation in decision-making as well as their access to documentation in Kazakh language. Meanwhile, for the Tsaatan communities in Khuvsgul aimag, some more specific measures have been updated and incorporated into project design to ensure that traditional Tsaatan communities have an equitable opportunity to participate in project processes and to benefit from project activities.

Borrower capacity: This is the third phase of the Sustainable Livelihoods Program. In the previous phases the implementing agency demonstrated its adequate capacity to deal with safeguard policies and issues during implementation. Under the third phase the implementation agency will be changed from the Ministry of Finance to the Ministry of Economic Development

and a new Project Implementation Unit will be established. The major difference in design under the proposed third phase is that the World Bank funds would be co-mingled with Government public budget in the Local Development Funds and therefore the safeguards policies should apply to whole LDF, which is the responsibility of the local government to implement. It is therefore of importance that there is capacity at the local level to address safeguard issues. The project would provide support for this and capacity at the PIU level, and would only release Bank funds via the Local Development FUND to those soums which have been assessed and found to be compliance with environmental policy, as per the annual environmental audit conducted as part of Annual Performance Assessments.

Capacity demonstrated under SLP2: The main challenge for SLP2 has been to adapt the environmental screening process to new legal requirements. The environmental law of 2009 gave responsibility for environmental screening and impact assessment to licensed officers of the Ministry of Nature, Environment and Tourism, posted at aimag level and limited the roles of soum environmental inspectors to environmental audit of completed investments. Because the licensed EIA officer is only 1 per aimag and far from the soums, it created a bottleneck, especially for screening of large numbers of small PRM subprojects involving fencing of hay fields and improvement of livestock water sources. The bottleneck was addressed by preparing a checklist for screening of CIF and PRM subprojects for use by soum environmental inspectors, who would compile environmental screening forms and send them to the aimag EIA officer for signature or further investigation. Another process introduced by a recent amendment to the environmental law makes it legal to conduct a “strategic environmental assessment” for a category of similar investments under a program approach, instead of requiring each single subproject to go through the screening and sign-off process. This could greatly facilitate the approval of large numbers of small PRM subprojects in support of implementing pastureland management plans. It would be important for the PIU to seek official government consent that the abovementioned streamlined environmental screening process developed for SLP2 would be carried over into IBL implementation under SLP3 and included in the Government LDF Guidelines.

Under SLP2, nearly all social investments under the Community Initiative Fund involved small improvements of existing facilities and only the public baths and other subprojects those involving the construction of new facilities or adding new buildings to existing facilities were required to go through environmental screening as well to comply with social safeguards on land acquisition. Under SLP3, the ten-fold increase in funds available for soum budgets is likely to increase the number of new facilities built. In addition, under SLP2, the PIU was required to implement social safeguards for Tsaatan reindeer herders in the far north of Khovsgul aimag and to track beneficiaries of investments in Bayan Olgii aimag to ensure that the Kazakh minority received an equitable share of benefits. The main difference from SLP2 is that SLP3 supports the government’s program and adopts government standards and procedures. Government has the necessary environmental standards and procedures but it does not have social safeguards.

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

The project would be nationwide, and potentially impact on all citizens, though the focus is on rural dwellers. The key stakeholders are therefore rural citizens, including the IPs identified (Tsaatan and Kazakh) and the local authorities serving them. Consultations and disclosure of key documents was done at provincial (aimag) and district (Soum) levels, and online. The social assessment in the IPP confirmed that the project received a broad support from the Tsaatan and Kazakh minority groups and continuous consultation and participation will be done in the project

implementation stage. The IPP was locally disclosed on March 28, 2013 and sent to InfoShop on April 9, 2013.

B. Disclosure Requirements

| Environmental Assessment/Audit/Management Plan/Other | |
|---|-------------|
| Date of receipt by the Bank | 08-Apr-2013 |
| Date of submission to InfoShop | 09-Apr-2013 |
| For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors | |
| "In country" Disclosure | |
| Mongolia | 28-Mar-2013 |
| <i>Comments:</i> | |
| Indigenous Peoples Development Plan/Framework | |
| Date of receipt by the Bank | 08-Apr-2013 |
| Date of submission to InfoShop | 09-Apr-2013 |
| "In country" Disclosure | |
| Mongolia | 28-Mar-2013 |
| <i>Comments:</i> | |
| If the project triggers the Pest Management and/or Physical Cultural Resources policies, the respective issues are to be addressed and disclosed as part of the Environmental Assessment/Audit/or EMP. | |
| If in-country disclosure of any of the above documents is not expected, please explain why: | |
| | |

C. Compliance Monitoring Indicators at the Corporate Level

| OP/BP/GP 4.01 - Environment Assessment | |
|---|---|
| Does the project require a stand-alone EA (including EMP) report? | Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>] |
| If yes, then did the Regional Environment Unit or Sector Manager (SM) review and approve the EA report? | Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>] |
| Are the cost and the accountabilities for the EMP incorporated in the credit/loan? | Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>] |
| OP/BP 4.04 - Natural Habitats | |
| Would the project result in any significant conversion or degradation of critical natural habitats? | Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>] NA [<input type="checkbox"/>] |
| If the project would result in significant conversion or degradation of other (non-critical) natural habitats, does the project include mitigation measures acceptable to the Bank? | Yes [<input type="checkbox"/>] No [<input type="checkbox"/>] NA [<input checked="" type="checkbox"/>] |
| OP/BP 4.10 - Indigenous Peoples | |
| Has a separate Indigenous Peoples Plan/Planning Framework (as appropriate) been prepared in consultation with affected Indigenous Peoples? | Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>] |

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| If yes, then did the Regional unit responsible for safeguards or Sector Manager review the plan? | Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>] |
| If the whole project is designed to benefit IP, has the design been reviewed and approved by the Regional Social Development Unit or Sector Manager? | Yes [<input type="checkbox"/>] No [<input type="checkbox"/>] NA [<input checked="" type="checkbox"/>] |
| The World Bank Policy on Disclosure of Information | |
| Have relevant safeguard policies documents been sent to the World Bank's Infoshop? | Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>] |
| Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs? | Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>] |
| All Safeguard Policies | |
| Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies? | Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>] |
| Have costs related to safeguard policy measures been included in the project cost? | Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>] |
| Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies? | Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>] |
| Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents? | Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>] |

III. APPROVALS

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| Task Team Leader: | Name: Andrew D. Goodland | |
| <i>Approved By</i> | | |
| Sector Manager: | Name: Iain G. Shuker (SM) | Date: 02-May-2014 |