



**United Nations Development Programme
Project of the Government of Mongolia**

PROJECT DOCUMENT

Title	CAPACITY DEVELOPMENT FOR THE MICRO-INSURANCE MARKET
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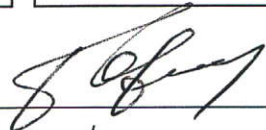
Project Title	Capacity Development for the Micro-insurance Market
UNDAF Outcome(s):	Pro-poor socio-economic services available to vulnerable population in disadvantaged regions and areas
Expected CP Outcome(s): <i>(linked to the project and extracted from the CPAP)</i>	Capacity of government and disadvantaged groups enhanced to mitigate economic and social vulnerabilities
Expected Output(s): <i>(resulting from the project and extracted from the CPAP)</i>	<ol style="list-style-type: none"> 1. Enhanced risk-management capacity of the poor and vulnerable people and women in the project pilot sites 2. Enhanced technical capacity of insurance providers to offer insurance services affordable and accessible for the poor and vulnerable people and women 3. Improved policy and regulatory frameworks on micro-insurance 4. Increased public awareness and knowledge on micro-insurance
Implementing Partner:	Financial Regulatory Commission
Other responsible parties and stakeholders:	Ministry of Finance and private insurance/micro-insurance providers

Brief Description

The objective of the "Capacity Development for the Micro-insurance Market" Project (the Project) is to enhance risk-management capacity of the poor and socially vulnerable people and women by developing a feasible micro-insurance system in Mongolia. The Project consists of the following four major components: (1) designing and piloting micro-insurance products specifically targeting the daily risks of the poor and socially vulnerable people and women, (2) capacity development of insurance providers to handle the micro-insurance products, (3) capacity development of the Financial Regulatory Commission, and (4) awareness raising of the general public on micro-insurance.

Programme Period: May 2009 - May 2012 Key Result Area (Strategic Plan): Promoting Inclusive growth, gender equality and MDG achievements Atlas Award ID: _____ Start date: May 8, 2009 End Date: May 7, 2012 LPAC Meeting Date: February 10, 2009 Management Arrangements: NEX	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Total resources required</td> <td style="text-align: right;"><u>USD 1,552,468</u></td> </tr> <tr> <td>Total allocated resources:</td> <td></td> </tr> <tr> <td>• UNDP TRAC</td> <td style="text-align: right;"><u>USD 151,500</u></td> </tr> <tr> <td>• Other:</td> <td></td> </tr> <tr> <td> o Government of Luxembourg</td> <td style="text-align: right;"><u>USD 1,400,968</u></td> </tr> <tr> <td> o Donor</td> <td style="text-align: right;">_____</td> </tr> <tr> <td>Financial gap:</td> <td style="text-align: right;"><u>USD 0.00</u></td> </tr> <tr> <td>Government In-kind contributions</td> <td style="text-align: right;">About 10% of the total resources required</td> </tr> </table>	Total resources required	<u>USD 1,552,468</u>	Total allocated resources:		• UNDP TRAC	<u>USD 151,500</u>	• Other:		o Government of Luxembourg	<u>USD 1,400,968</u>	o Donor	_____	Financial gap:	<u>USD 0.00</u>	Government In-kind contributions	About 10% of the total resources required
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Agreed by (Implementing Partner):

 2009.05.08.

Agreed by UNDP:

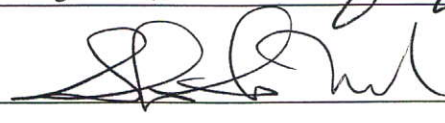
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ACRONYMS AND ABBREVIATIONS

Mongolian Words

Aimag	Province
Soum	County
Togrog	Unit of Mongolian currency
	As of May 2009, the UN official rate is USD 1 = MNT 1,405.00

Acronyms and Abbreviations

APR	Annual Project Report
AWP	Annual Work Plan
CPAP	County Programme Action Plan
FRC	Financial Regulatory Commission
GDP	Gross Domestic Product
GMS	General Management Support
GOL	Government of Luxembourg
GOM	Government of Mongolia
MDG	Millennium Development Goal
MFI	Microfinance Institution
MFE	Monitoring Framework and Evaluation
MNT	Mongolian Togrog
NEX	National Execution
NGO	Non-governmental Organization
NHDR	National Human Development Report
NPM	National Project Manager
NPD	National Project Director
PB	Project Board
PIU	Project Implementation Unit
POPP	Programme and Operations Policies and Procedures
PPP	Public-Private Partnership
SBAA	Standard Basic Assistance Agreement
TOR	Terms of Reference
UNDP	United Nations Development Programme

I SITUATIONAL ANALYSIS

A. Economic and poverty background

Despite substantial growth in macro economy in recent years, a large part of Mongolia's population remains vulnerable and insecure. The Second National Report on the Millennium Development Goal Implementation¹ indicates that poverty reduction (Millennium Development Goal 1) is one of the areas where Mongolia has had most difficulty to achieve the target by 2015. At the disaggregated levels, new forms of poverty are appearing, such as a growing number of the urban poor, the homeless people, working children and female-headed households. According to the National Human Development Report (NHDR) 2007, Mongolia ranks 112th among the 177 rated countries on the Human Development Index of 0.691. The National Statistic Office (NSO) announced that 35.2 % of the population still lives below the income poverty line as of July 2008². The gaps between regions, within urban areas, between rural and urban areas, and between men and women, have become wider. In addition, although Mongolia has officially kept low unemployment rates, the country has suffered from high underemployment associated with low productivity and low returns. The labor market has experienced imbalances between demand and supply. One of the main challenges is a lack of business skills and convertibility of people. Income generating activities have been in serious need to create employment opportunities, particularly, in rural areas.

Microfinance institutions (MFIs) have expanded their outreach and have already started providing financial services to the poor and vulnerable people. The main financial services of the major MFI in Mongolia are loans and savings. However, it should be noted that vulnerability of the poor is not eliminated by only accessing to loans and savings. The poor and vulnerable people have limited risk management options in cases of emergencies and/or unexpected incidents with their lives such as death, illness, disability, theft, bad weather conditions and even in a macroeconomic instability.

The NHDR 2007 noted that the cost of the welfare services provided by the private sector are often expensive and thus not affordable for poor people.

B. Insurance industry in Mongolia

As of the second quarter of 2008, there are 16 commercial insurance companies, one life insurance company, 4 insurance intermediate companies and 1,128 licensed insurance agents in active operation in Mongolia with special licenses issued by the Financial Regulatory Commission (FRC). The licensed insurance companies deliver their services through 117 branches with 403 employees nationwide. Some local insurance providers also offer reinsurance to international insurance companies. There are 39 types of insurance products in the following five main categories; property, liability, finance, reinsurance, and health and life. According to the premium income as of the end of 2007, the property insurance accounts for 62.2% of the total income, the liability insurance for 26.9%, the finance insurance for 2%, and the combined income of health and life insurances accounts for about 8.6%. Since the proportion of the life insurance in the current market is very small, there is no separate figure available for the life insurance. Livestock and animal insurances are categorized as one type of property insurance.

The FRC officially noted that the domestic insurance premium income has increased recently. However, the insurance premium income accounts for only 0.38% of the Gross Domestic Product (GDP) which is considered quite low as compared to the international standards; 3-6% in

¹ UNDP, 2007

² NSO, 2008

developing countries and 7-13 % in developed countries. Most of the insurance providers in Mongolia face difficulties in sustaining their businesses because of lack of actuarial and fund management skills, poor governance structures, and inefficient premium collection and claim processing procedures.

In the course of the project identification, it was analyzed that there was an increasing trend of accidental injury in Mongolia, and most employees were insured against potential accidental risks because it is a mandatory requirement of employers. The average insured value of an accident insurance in Mongolia is MNT 500,000- 1,000,000 which is equivalent to USD 356-712³, and annual premium rates depend on the level of potential risks. For example, office workers are charged 2% of the insured value per year as compared to 2.5% for drivers, 3% for mining workers to cover risks in case of death and disability.

However, it was also noted that many micro and small business owners, unemployed people, and seasonal workers are not insured. This is mainly because they tend not to find insurance important as one of the risk management tools due to their poor understanding.

The insurance industry is very young in Mongolia and both insurance providers and customers are still in the learning stage about potential insurance options.

C. Potential micro-insurance market

The term “micro-insurance” shall refer to the insurance services which provide individual-based insurance products, particularly, targeting daily risks of the poor and socially vulnerable people.

Although the FRC recognizes the importance of micro-insurance, provision of insurance services to the poor and vulnerable people is still a relatively new concept in Mongolia. There is a lack of well designed micro-insurance products in the current market. The domestic insurance industry remains skeptical about the potential impact of insurance on the poor and vulnerable people.

The “Micro-insurance for low-income population: Needs assessment survey” (The survey) conducted by UNDP in 2007 identified that the pro-poor micro-insurance could be one of the possible options of risk management for the poor and socially vulnerable people, and, thus, could contribute to achievement of the MDGs in Mongolia.

The main risks of the survey participants⁴ and their families were analyzed as follows; health related problems (51.5%), losing their job and income (40.5%), and deaths of their family members (37.7%). Nearly 50% of survey participants identified theft and robbery as one of the biggest risks in their daily lives. According to the survey, the poor and vulnerable people tend to be exposed to more risks in their daily lives, such as life loses, theft and robbery, asset loses, and fire. The survey result also indicated that the survey participants did not have enough knowledge about insurance in general, insurance products currently available in the market, and the terms and conditions of those products.

Out of the total 260 survey participants, 81% showed their interests in being insured in order to prevent their families and themselves from potential risks.

³ The dollar value was calculated by the UN operational exchange rate for May 2009 of MNT 1,405.00/USD.

⁴ The survey covered selected households and individuals living the ger area in Ulaanbaatar City. Out of the survey participants, men account for 35% and women account for 65%. People under age 35 account for 33%, 30% aged 35-44, and 37% over 44. The average age of the participants is 41.1.

On the other hand, the survey highlighted that insurance companies tend to be reluctant to scale down their insurance products to make them affordable for the poor and vulnerable people due to high administration costs, lack of technical expertise, and lack of understanding of the potential of the micro-insurance market.

Some insurance providers have started the first attempts to provide micro-insurance products targeting individual clients. One of major domestic insurance providers, Prime Daatgal, has recently opened a branch to offer insurance products particularly designed for potential risk of individuals with affordable prices⁵.

D. Legal and regulatory framework of the insurance market in Mongolia

The Financial Regulatory Commission (FRC) is a governmental agency in charge of regulation and monitoring of all nonbank financial activities. The first 'Law on Insurance' (the Law) was approved by the Parliament in 1997 and then was amended in 2004. The Law clearly defines the duties and responsibilities of the FRC, the insurance providers and clients. According to the 14th article of the Law, the FRC is mandated to develop and approve regulations, resolutions and guidelines related to insurance operations in Mongolia. The existing insurance products are categorized into two separate types; the social insurance and the commercial insurance. They are also divided into the following two categories: voluntary-based and compulsory.

The FRC has issued a number of regulations and insurance guidelines for insurance providers. For example, the Annex of the FRC resolution 18 issued on June 23, 2006, provides the definition and types of voluntary-based insurance products. The pilot micro-insurance products to be developed and tested by the project will fall under one of the product types identified in the above mentioned Annex. The FRC also published a glossary of English-Mongolian insurance terminologies. The project is expected to utilize it unless there is internationally recognized special micro insurance terminology is introduced by the project.

Since the FRC considers micro-insurance an extended version of the insurance targeting individuals, it is expected that there will be no additional legal requirements for the project to design and pilot new micro-insurance products within the existing legal regulatory framework.

II. RATIONALE OF THE PROJECT

Contribution to achievement of the national development strategy in poverty reduction

The GOM has approved the MDGs as a national development strategy. The review of the current status of MDG implementation in Mongolia shows slow progress in general, unsatisfactory performance and weak coordination of policies and measures aimed at implementation of the MDGs. With one third of the population living below the poverty line, it becomes critical to link a poverty reduction strategy with economic growth and macro-economic reform policies rather than rely solely on aid and social safety nets. The GOM has so far placed an emphasis on social welfare policy for the poor and vulnerable people. Although the government spends significant resources on social welfare, it has failed to create efficiency and equity gains. Therefore, strategies to accelerate the process of poverty alleviation need to be developed and implemented.

⁵ The lowest annual premium of a student accident insurance package is MNT 1,500 (equivalent to USD 1.07) which is the affordable level for students. The highest insurance packages are MNT 200,000 (equivalent to USD 142.35) for accidental property damages and MNT 150,000 (equivalent to USD 106.76) for health problems.

Under the UNDP Country Programme Action Plan (CPAP) 2007-2011, the GOM and UNDP agreed with the continued support to facilitate the poor's access to financial services in order to mitigate their economic and social vulnerability. One of the possible ways to address the challenge is to create a favorable environment and structure of micro-insurance which is affordable and accessible for the poor and vulnerable people. The project is expected to provide a basis of the further micro-insurance industry development as a means of poverty reduction and to contribute to the government's efforts in achieving the MDG 1 by 2015.

The project is the first joint attempt of the GOM and international assistance to develop and strengthen the micro-insurance industry in Mongolia. As a result of the project, it will become possible to develop locally adapted micro-insurance products marketable in Mongolia and to support the poor and vulnerable people by provision of risk management options. In addition, it is expected that the FRC and micro-insurance providers built their capacity to handle and be engaged in the micro-insurance market with the technical support from the project.

The project's focus will be promotion of strategies for pro-poor growth by strengthening micro-insurance system in Mongolia and by increasing an insurance access of the poor and vulnerable people and women.

III. STRATEGY

The following strategies will be applied to the project implementation.

A pro-poor approach will be applied to overall project implementation. It implies working directly with poor communities. The project will focus on not only the low income population but also socially vulnerable people and women.

A. Partnership with the private sector

The project will strongly seek for the possible partnership with the private sector within the project framework and intends to develop a Public-Private Partnership (PPP) strategy in the field of micro-insurance. The project aims to involve private insurance companies in targeting lower income segments of the market in partnership with the government and public agencies. The goal of the partnership is a joint contribution to poverty reduction and the balanced growth of Mongolia. Under the project, no financial investment from both the government and the private sector is expected.

B. Development of a set of insurance policies/products as one package

The project aims to develop a new set of insurance policy/product packages which consist of a variety of coverage of possible risks associated with beneficiaries' daily lives such as property damage, health problems, accidental injuries and deaths rather than developing various insurance policies for each risk. The insurance policy/product package will help the project beneficiaries to obtain a comprehensive coverage of risk management with a single insurance contract. On the other hand, insurance providers can save the administration costs by offering various types of insurance products in one package. The most appropriate set(s) of risk coverage, possible composition(s) of insurance policies, the terms and conditions of respective components in a package, and affordable premium levels will be assessed and determined in the early stage of the project implementation.

C. Client oriented approach.

The project will ensure a demand driven approach by identifying and monitoring the needs of the target beneficiaries. The insurance products and services will be developed based on the results of the need assessment to be conducted in the early stage of the project. The project will ensure to pay the same level of attention to all micro-insurance stakeholders including beneficiaries (clients), regulatory agency (FRC), policy makers and insurance providers. The selection criteria of the target beneficiaries will be determined by the project in cooperation with the local government and participating insurance providers.

D. Capacity development of insurance providers

One of the main bottlenecks of micro-insurance development in Mongolia is lack of institutional awareness and capacity of insurance providers in this field. Also, it is essential for insurance providers to have technical capacity to develop, manage and market/sell the micro-insurance products to the potential target customers. For this purpose, the project will put a special emphasis on the activities to develop capacity of participating insurance providers.

E. Gender issue

Gender is a cross-cutting issue in the UNDP programming and the gender-sensitive approach, which stems from the strong links between gender equality and poverty issues, will be incorporated into the project planning and implementation. In general, female-headed households are more vulnerable against potential risks than men-headed households. In order to make project's support responsive to needs of the most socially disadvantaged people, the project will ensure to mainstream gender sensitive approach in identification and selection of project beneficiaries as well as in planning and implementation of the project activities. For that purpose, it is essential for the project to conduct the status analysis in the early stage of the project, with a gender disaggregated approach. Gender-disaggregated data collection and analyses will provide a baseline to understand and assess whether the project has more or less impact on which social group of people in which context.

F. Cooperation with Microfinance Institutions (MFIs) and other potential delivery channels

In international practices, it has been widely observed that MFIs function as a registered insurance agent on behalf of local insurance providers. The similar attempts have been already made in Mongolia such as the case of a partnership between XAC Bank and a local insurance company, Prime Daatgal. By utilizing the MFI's network, insurance providers can reach out the poor and vulnerable people efficiently to promote their micro-insurance products. On the other hand, MFIs can minimize their risks of loan default if loan applicants are insured. The project will facilitate partnership agreements among MFIs and participating insurance providers to ensure efficient and effective promotion of the micro-insurance products. In addition to the MFIs, the project will seek for other potential implementing partners (insurance agents) to expand the channels of service delivery to the project beneficiaries.

K. Exit strategy and sustainability.

The project expects the following two different exit strategies depending on the results of the pilot activities; (1) given the condition that the project proves the micro-insurance market in Mongolia is sustainable and profitable for the private sector operation, partner insurance providers will continue provide micro-insurance services to the poor and vulnerable people in a sustainable manner, or (2) if the results of this pilot project shows that the micro-insurance is one of the areas where the Government needs to take an initiative to develop, the FRC is expected to consider institutionalization of the micro-insurance system as a part of the national social security and take necessary actions. The project aims to provide the foundation of the decision-making for further development of the micro-insurance industry in Mongolia. In order to identify the most

suitable exit strategy, the project will facilitate policy dialogues among the GOM (FRC), insurance providers and policy makers as one of the main activities of the project. The proposed exit strategies will be reviewed and may be revised in the course of the project implementation.

IV SCOPE OF THE PROJECT

A. Duration

For 3 years to develop and pilot the pro-poor micro-insurance products in the market.

B. Location

The Project Implementation Unit (PIU) will be located in Ulaanbaatar. The project will select 2-3 districts in Ulaanbaatar City and some provincial centers (aimags) as the pilot project sites. This is to pilot the micro-insurance products in both urban and rural areas in order to assess the applicability of the insurance products to various segments of the poor and vulnerable people. The pilot sites will be determined based on the result of the needs assessment / market analysis to be conducted at the early stage of the project.

C. Beneficiaries

The following are the micro-insurance project target beneficiaries.

- 1) Low income un-insured and under-insured men and women in the selected project implementing sites
- 2) Insurance providers
- 3) FRC

D. Outcome/ Overall Impact

The anticipated outcome of the project is that capacity of the government and disadvantaged groups enhanced to mitigate economic and social vulnerabilities.

E. Objectives

The followings are the main objectives of the project:

- To enhance risk-management capacity of the poor and vulnerable people and women by developing a feasible micro-insurance system at the national level
- To build capacity of insurance providers to develop and offer micro-insurance products accessible and affordable for the poor and vulnerable people and women
- To improve the micro-insurance policy frameworks and legal environment

F. Project Outputs

1. Enhanced risk-management capacity of the poor and vulnerable people and women in the project pilot sites
2. Enhanced technical capacity of insurance providers to offer insurance services affordable and accessible for the poor and vulnerable people and women
3. Improved policy and regulatory frameworks on micro-insurance
4. Increased public awareness and knowledge on micro-insurance

G. Activity results

- 1-1. Major risks and specific insurance needs faced to the poor and vulnerable people identified with a gender disaggregated approach;
- 1-2. Knowledge of the project beneficiaries (the poor and vulnerable people and women in the target regions) on micro-insurance improved; and
- 1-3. Access of the project beneficiaries to affordable micro-insurance products increased through provision of the pilot insurance products in target project sites.

- 2-1. Pro-poor micro-insurance products developed to address the specific needs of poor and vulnerable people; and
- 2-2. Technical capacity of the participating insurance providers in designing, managing and promoting micro-insurance products developed through technical assistance.

- 3-1. Legal and regulatory bottlenecks for the micro-insurance development identified;
- 3-2. Capacity of the FRC in regulating and monitoring micro-insurance industry developed; and
- 3-3. Regulatory framework for the partnership between insurance providers and MFIs (potential delivery agents) improved.

- 4-1. Public awareness toward micro-insurance increased through variety of public outreach activities; and
- 4-2. Awareness and knowledge of the government officials, policy makers, the insurance industry and other stakeholders on micro-insurance increased.

H. Activities

1-1-1. Status survey and need assessment:

A need assessment will be conducted to identify insurance needs of the target beneficiaries (the poor and vulnerable people in the selected project pilot sites) in the early stage of the project implementation. The assessment results will be used for the purpose of insurance product development planned for the project's next step. The definition and selection criteria of the project beneficiaries (the poor and vulnerable people) will be discussed and determined between the FRC and UNDP in consultation with the participating insurance providers. In addition, a survey will be conducted to identify the current economic and social status of the beneficiaries. The survey result will provide the baseline data to assess the project achievement. The gender disaggregated data collection and analysis need to be applied.

1-2-1. Knowledge building workshops and capacity development training for the beneficiaries:

A series of knowledge building workshops and capacity development trainings will be conducted for the project beneficiaries to improve their understanding on micro-insurance systems.

1-3-1. Provision of pilot micro-insurance products:

The project will offer the specifically designed (Activity 2-1-2) pilot micro-insurance products to the beneficiaries in cooperation with the participating insurance providers in the target project sites. Channels of insurance service delivery or local insurance agents/brokers for respective project sites will be identified, if necessary, in consultation with the FRC and the participating insurance providers.

1-3-2. Promotion and monitoring of the pilot activities:

Community facilitators will be identified in the respective project sites to promote the project activities and pilot micro-insurance product for the purpose of smooth implementation on the ground. Community facilitators can be one of the potential beneficiaries. The main tasks of the community facilitators are to work directly with communities in the project sites to raise the target beneficiaries' awareness toward

micro-insurance and its benefits. The close coordination among the project, community facilitators, participating insurance providers and service delivery channels (agents/brokers), if applied, is expected. The brochures and handouts will be developed and distributed.

- 2-1-1. Selection of the participating insurance providers:
Insurance providers which participate in the project's pilot activities will be selected by tender. The selection criteria, and terms and conditions of the partnership will be developed in consultation with the FRC and UNDP.
- 2-1-2. In-depth sector survey and market analysis:
An in-depth sector survey will be conducted to identify and analyze existing (micro/ordinary) insurance products offered by commercial insurance providers in Mongolia and the demand on the insurance industry in the market. Special attentions shall be given to analyze potential and possibility of micro-insurance products in the market.
- 2-1-3. Development of the pilot micro-insurance product:
Based on the results of the need assessment (Activity 1-1-1) and market analysis (Activity 2-1-2), the pilot micro-insurance product targeting the needs of the project beneficiaries will be developed. The expected pilot micro-insurance products are to be considered a voluntary based insurance product, according to the current regulatory framework. The level of premium, terms and conditions, and optimal mode of operations/administration of the pilot products will be discussed and agreed between the project, the FRC and participating insurance providers.
- 2-2-1. Technical assistance and skill training for micro-insurance providers:
The project will provide the participating insurance providers technical assistance and skill training on designing, managing and promoting micro-insurance product in the market. This includes technical trainings, knowledge building activities, workshops and advisory services. It is also expected that their institutional awareness and understanding on the importance of micro-insurance in the context of poverty reduction will be improved through their participation in the project pilot activities.
- 3-1-1. Policy and regulatory framework assessment:
The project will assess the policy and regulatory framework regarding the micro-insurance market and industry to identify the current bottlenecks and the possible project intervention at the policy level to improve the regulatory framework of the insurance industry, particularly on micro-insurance. Based on the identified results, an action plan will be developed in cooperation with FRC.
- 3-2-1. Technical assistance to the FRC in regulating and monitoring the micro-insurance industry and market:
A series of technical trainings and knowledge building activities will be provided to the selected FRC staff to enhance their capacity in regulating and monitoring the micro-insurance industry and market. Training modules will be developed for the further use. It is expected that the trained FRC staff will become trainers of other FRC staff and stakeholders to promote further development of the micro-insurance systems in Mongolia.
- 3-3-1. Coordination at the policy level:
In order to improve the current policy, legal and regulatory framework and/or requirements, particularly, associated with micro-insurance and insurance provision to individual clients, the project will facilitate policy dialogues among the FRC, insurance providers and other stakeholders such as agents and brokers, and make necessary recommendations when needs arise.

4-1-1. Insurance education campaign to improve public awareness and understanding on micro-insurance systems:

Awareness raising activities targeting the nationwide general public will be conducted to advocate the concept and importance of the micro-insurance systems in people's daily lives. Civil society organizations and non-government organization (NGOs) are expected to be one of main dissemination channels. The campaign will use various types of methods including all types of media (TV, newspaper, radio).

4-2-1. Focused advocacy activities for the GOM, policy makers and the insurance industry:

Awareness raising activities particularly focusing the government officials, policy makers and the insurance industry will be prepared and conducted in order to advocate the concept and importance of the micro-insurance systems. The advocacy put a special emphasis on the issues on achievement of the MDG 1 (poverty reduction and balanced economic/social growth of Mongolia).

V. MANAGEMENT ARRANGEMENT

A. Project management

The project shall be implemented in the National Execution (NEX) modality whereby the full responsibility for the production of the agreed outputs and use of UNDP resources rests with the Financial Regulatory Commission (FRC) as the national executing agency. The project shall be managed in accordance with the rules and procedures outlined in the UNDP's Programme and Operations Policies and Procedures (POPP). It may be managed on the basis of government programme/project management policies and procedures if and when comparable systems are fully in place and an agreement is appropriately reached between the FRC and UNDP.

The project will be supervised by the **Project Board (PB)** which brings together the roles and responsibilities of the Executive (FRC and UNDP), the Suppliers (donors and implementing partners) and the Users (beneficiaries/ representatives from the private sector) of the project outputs (see the project organigram in this section). The PB is composed of representatives from the Ministry of Finance, Ministry of Labor and Social Welfare, Mongolian Insurance Association as a private sector representative, UNDP and the FRC as the executing agency. A chairperson of the PB will be appointed by the FRC.

This PB is responsible for the overall direction and management of the project. It reviews and approves project Annual Work Plans (AWPs) and progress reports, ensures that required resources are committed and arbitrates on any conflicts within the project and/or negotiates a solution to any problems between the project and external bodies. The PB authorizes any major deviation from the agreed plans when the project modification is required or when project tolerances (approved budget and delivery deadlines) have been exceeded. The PB members will individually and collectively ensure that potential risks in the project's policy and political environment that may undermine the achievement of project objectives or production of its outputs are removed or mitigated in a timely and effective manner. The PB approves any delegation of its project assurance responsibilities.

The PB members will have to be ready to recommend modifications in the scope and management framework of the project, such as in the case of rapid increase in interest rates, product certification, management standardization, and others.

The PB meetings are open to representatives of the third-party cost-sharing donor(s), who will be

notified of the forthcoming meeting and provided with relevant documents in advance.

As the **Executives**, a representative of the FRC as the national executing agency and UNDP Programme Director/Deputy Resident Representative represent the ownership of the project and assume ultimate responsibility for its successful implementation. The Executives will appoint an alternate Executive, if necessary.

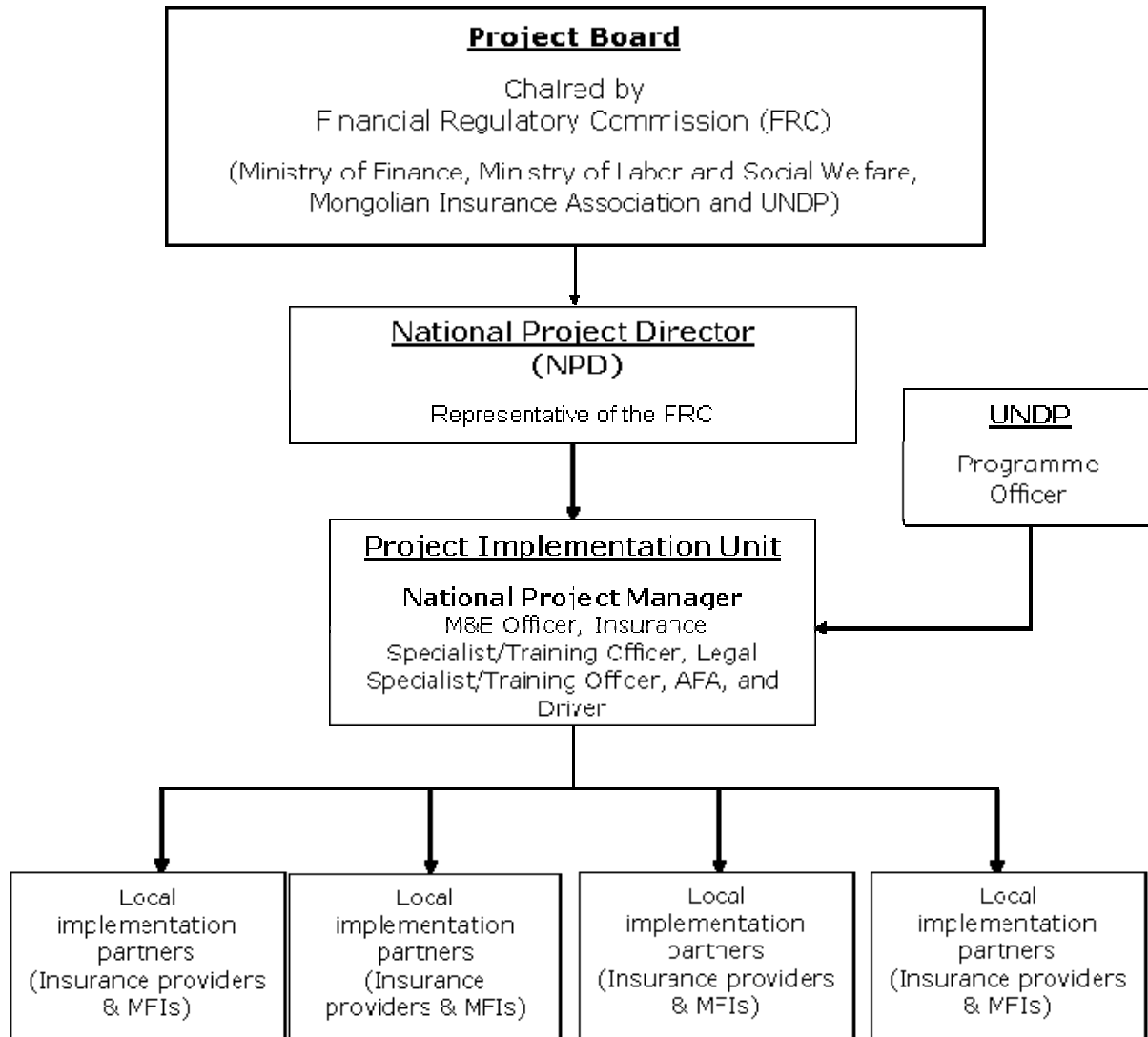
Project Assurance is the responsibility of each PB member and an independent function of objective oversight and monitoring. Project assurance support will be provided to the PB by a designated government representative of the FRC and UNDP Programme Officer.

A **National Project Director** (NPD) in charge of the overall implementation of the project will be appointed by the FRC. A **National Project Manager** (NPM) is fully accountable to the NPD and the PB for the satisfactory execution of the entire project. He/She will be responsible for day-to-day operation and implementation of the project activities. The NPM's main responsibility is to ensure the project outputs as specified in the project document, in accordance with the NEX modality, and the required quality standard of the outputs within the specified constraints of time and cost. By utilizing the UNDP result-based project management system (ATLAS), he/she will be managing and monitoring the project risks initially identified, submit new risks to the Executive for consideration and decision on possible actions if required; update the status of these risks by maintaining the Project Risks Log. The full-time NPM will be selected jointly by the FRC and UNDP and contracted by UNDP on the behalf of the FRC.

Project Implementation Unit (PIU) will encompass NPM, Insurance Specialist, Legal Specialist/Training Officer, Monitoring and Evaluation Officer, an Administrative and Administrative and Financial Assistant, and Driver for the extensive operations of this complex project. Additional professional staff for the PIU can be recruited upon the agreement between the FRC and UNDP.

The project can contract international/national short term experts when the professional technical inputs are required.

Structure of the Project Management



B. UNDP support service

UNDP will provide human resources, procurement, and other administrative and management services in line with the *Standard Letter of Agreement between the UNDP and the Government for the Provision of Support Services* (Please refer the letter available in the UNDP Mongolia website). The cost recovery rules and procedures will be applied for the services provided by UNDP.

C. Prior obligation and prerequisites

The Government of Mongolia (GOM) will provide strategic oversight and coordination to ensure the use of best national and international practice and complementarities with other interventions

in the field specific to this project. It will ensure ownership of the project by securing legal and regulatory frameworks necessary for institutionalization and mainstreaming of its outputs as basic concepts and means of poverty reduction through small and micro enterprise development.

Non-state stakeholders will commit human and other resources to make the most of the opportunities for participation and capacity development offered by the project, and to amplify the benefits of the project by undertaking advocacy to raise public awareness and knowledge of poverty and human development issues and related policy needs and challenges.

The national executing agency and other project counterparts shall provide the following in-kind contribution:

Contribution	Contributor	Terms of provision
Project Implementing Unit office space	FRC	In-kind contribution
Office space for short-term consultants (international and national)	FRC and other national counterparts	Same as above
Meeting venues	RFC and other national counterparts	Same as above
Time and salary of NPD and respective government staffs for the PB and other project related activities	FRC and other national counterparts	Same as above
Time and salary of government staff (FRC) to join PIU	FRC	Same as above
Transportation, if and when required	FRC and other national counterparts	On a cost-sharing basis (the driver's time and petrol used, or applicable government-approved rental fee)

D. Audit arrangements

The project shall be subject to management and financial audits in accordance with UNDP POPP and National Execution Guidelines.

E. Agreements on intellectual property rights and use of UNDP and the GOM logo on the project deliverables

The UNDP shall be entitled to all intellectual property and other proprietary rights including but not limited to patents, copyrights and trademarks, with regard to documents and other materials which bear a direct relation to or are prepared or collected in consequences. The Contractor, at the UNDP's request shall take all necessary steps, execute all necessary documents and generally assist in securing such proprietary rights and transferring the same to the UNDP in compliance with the requirements of the applicable law. The Contractor shall not advertise or otherwise make public the fact that it is a contractor with the UNDP. Also the Contractor shall, in no manner whatsoever use the name, logo of the UNDP or any abbreviation of the name of the UNDP in connection with its business or otherwise.

VI. MONITORING FRAMEWORK AND EVALUATION

Project monitoring and evaluation will be conducted in line with the UNDP Programme and Operation Policies Procedures (POPP) and on the basis of a Monitoring Framework and Evaluation (MFE) to ensure the achievement of the intended results within the agreed budget and timeframe. The project implementing agency shall monitor the overall performance of the project, and evaluate its long-term socioeconomic benefits in order to ensure the interventions are implemented in an effective way. The project shall be continuously and comprehensively monitored through the monthly and quarterly project progress records and quality assessment which will be submitted by the National Project Manager (NPM) to the Project Board (PB). In addition, an Annual Project Report (APR) shall be prepared based on the Atlas standard and/or donor format for the quarterly progress reports covering the whole year with updated information as well as a summary of results achieved against intended annual targets at the output level. Based on the APR, an annual project review shall be conducted in the last quarter of the year, to assess the performance of the project and review the Annual Work Plan (AWP) for the following year. This appraisal is done by the PB and may involve other stakeholders as necessary. Monitoring and Evaluation Plan will outline other progress monitoring activities that will include regular field site visits, regular meetings of project management and meetings with partners and key stakeholders, as required.

In order to ensure provision of client-oriented assistance and need-responsive operation of the project, the project will apply the participatory approach for monitoring and evaluation of the project. The community facilitators who represent the project beneficiaries in the target soums/communities will be appointed. The community facilitators will support the PIU in participatory monitoring on the ground. The focus group discussions will be organized at the ending stage of the project with all beneficiaries including the direct and indirect beneficiaries of the project in the selected sites.

A. Monitoring tools

Within the annual cycle, the progress of the project implementation will be monitored monthly and quarterly by the following monitoring methods and tools;

- Monthly project progress updates will be provided by the NPM to the Implementing Partners and UNDP Programme Officer.
- On a quarterly basis, a quality assessment shall record progress towards the completion of key results, based on quality criteria and methods captured in the Quality Management table below.
- An Issue Log shall be activated in ATLAS and updated by the NPM to facilitate tracking and resolution of potential problems or requests for change.
- Based on the initial risk analysis submitted (see annex 1), a Risk Log shall be activated in ATLAS and regularly updated by reviewing the external environment that may affect the project implementation.
- Based on the above information recorded in ATLAS, Quarterly Progress Reports (QPR) shall be submitted by the NPM to the PB through Project Assurance, using the standard report format available in the Executive Snapshot.
- A project Lesson-Learned Log shall be activated in ATLAS and regularly updated to ensure on-going learning and adaptation within the organization, and to facilitate the preparation of the Lessons-learned Report at the end of the project

- A Monitoring Schedule Plan shall be activated in ATLAS and updated to track key management actions/events

Annually, the project progress and implementation will be monitored by the following methods and tools;

- **Annual Review Report.** An Annual Review Report shall be prepared by the NPM and shared with the PB. The Annual Review Report shall consist of the ATLAS standard format for the QPR covering the whole year with updated information for each above element of the QPR as well as a summary of results achieved against pre-defined annual targets at the output level.
- **Annual Project Review.** Based on the above report, an annual project review shall be conducted during the fourth quarter of the year or soon after, to assess the performance of the project and appraise the Annual Work Plan (AWP) for the following year. In the last year, this review will be a final assessment. This review is driven by the PB and may involve other stakeholders as required. It shall focus on the extent to which progress is being made towards outputs, and that these remain aligned to appropriate outcomes.

B. Evaluation of the project implementation

The progress of the project implementation and its achievement will be evaluated by the following

- Mandatory external mid-term evaluation
The mid term evaluation shall be conducted on the 18th month of the project implementation. The PB in cooperation with UNDP will select external evaluators.
- Mandatory external terminal evaluation upon the project completion
The project will be subject to obligatory external in-depth evaluations before its operational completion in order to assess the progress and achievement of the project intervention and to ensure the completion of the planned exit strategy.

Other monitoring and evaluation activities will be:

- Regular field visits by the PIU as outlined in the Monitoring Schedule Plan
- Satisfaction surveys after training and workshops
After each training session, a satisfaction survey will be conducted. It should cover all areas relevant to the trainings including content, methodology, and trainers' capacity. It will help the project to identify whether the project is meeting the identified needs, to clarify reasons of unsatisfactory activities and to improve training/activity plans for future implementation.
- Periodic project management meetings and meetings with partners and stakeholders, as required
- Donor monitoring and reporting such as annual progress reports and/or monitoring field visits
- Any additional monitoring and evaluation activities requested by stakeholders

In accordance with the UNDP Evaluation Policy, UNDP and the Government of Mongolia in consultation with other stakeholders will jointly agree on the purpose, use, timing, financing mechanisms and terms of reference for the external evaluation upon the project completion and, if necessary, after its completion (ex-post). UNDP shall commission the evaluation, and the evaluation exercise shall be carried out by external independent evaluators identified jointly by the PB and the cost-sharing donor(s).

The Quality Management Matrix for Project Activity Results is available below.

Quality Management for Project Activity results

OUTPUT 1: Enhanced risk-management capacity of the poor and vulnerable people in the project pilot sites		
Activity Result 1	Major risks and specific insurance needs faced to the poor and vulnerable people identified	Start Date: Second quarter of 2009 End Date: Beginning of the third quarter, 2009
Purpose	To identify the major risks facing to lower income segments and to determine the special needs of the micro-insurance services for poor and vulnerable people.	
Description	Detailed needs assessment, prioritization of needs and risks of the poor people.	
Quality Criteria <i>how/with what indicators the quality of the activity result will be measured?</i>	Quality Method <i>Means of verification. What method will be used to determine if quality criteria has been met?</i>	Date of Assessment <i>When will the assessment of quality be performed?</i>
The needs assessment identified the existing needs of the poor people	-Review of results of the needs assessment and confirmation of the baseline data.	Second Quarter, 2009
Activity Result 2	Knowledge of the project beneficiaries (the poor and vulnerable people in the target regions) on micro-insurance improved	Start Date: 4 th quarter of 2009 End Date: Continues process till end of the project
Purpose	To build the insurance education capacity of the low income segments in the target region.	
Description	Capacity development training and knowledge building activities	
Quality Criteria <i>how/with what indicators the quality of the activity result will be measured?</i>	Quality Method <i>Means of verification. What method will be used to determine if quality criteria has been met?</i>	Date of Assessment <i>When will the assessment of quality be performed?</i>
Number and quality of the developed training modules Number of trainings and knowledge building activities on conducted for the target beneficiaries	Development, review and evaluation of the training modules Training Evaluation Survey Satisfaction survey among beneficiaries	Starting from 4 th quarter, 2009 in a continues manner

Activity Result 3	Access of the project beneficiaries to affordable micro-insurance products increased through provision of the pilot insurance products in target project sites	Start Date: 1 st quarter, 2010 End Date: sustainable access
Purpose	To improve the risk management options of the poor and vulnerable people	
Description	Piloting specifically developed micro-insurance products in the market (testing appropriateness and profitability of the products in the market), promotion of micro-insurance products and project activities	
Quality Criteria <i>How/with what indicators the quality of the activity result will be measured?</i>	Quality Method <i>Means of verification. What method will be used to determine if quality criteria has been met?</i>	Date of Assessment <i>When will the assessment of quality be performed?</i>
Number of the insurance plans/policies obtained by the project beneficiaries Percentage and number of people in the target beneficiaries in the pilot sites covered by micro-insurance policies Level of clients' satisfaction The baseline data will be obtained from the participating insurance providers at the early stage of the project implementation	Annual reports Regular monitoring by community facilitators Comparison data analysis Clients' satisfaction survey results	Annually reporting
OUTPUT 2 : Enhanced technical capacity of insurance providers to offer insurance services affordable and accessible for the poor and vulnerable people		
Activity Result 1	Pro-poor micro-insurance products developed to address the specific needs of poor and vulnerable people	Start Date: 2 nd quarter, 2009 End Date: 2 nd quarter, 2009
Purpose	To design and develop pro-poor micro-insurance product to address the identified needs of the beneficiaries	
Description	In-depth sector survey, market analysis, development of micro-insurance product	
Quality Criteria <i>how/with what indicators the quality of the activity result will be measured?</i>	Quality Method <i>Means of verification. What method will be used to determine if quality criteria has been met?</i>	Date of Assessment <i>When will the assessment of quality be performed?</i>
The current status of the insurance industry and market identified	The review and confirmation of the survey results	Upon the completion of the survey and analysis

Micro-insurance product developed	Approval, review and evaluation of the developed pilot insurance products	Annually
Activity Result 2	Technical capacity of the participating insurance providers in designing, managing and promoting micro-insurance products developed through technical assistance	Start Date: Third quarter, 2009 End Date: till the end of the project
Purpose	To improve skills and knowledge of the participating insurance providers to offer insurance services to the poor and vulnerable people	
Description	Skill training, technical assistance including advisory services, and knowledge building in designing, managing and promoting micro-insurance products.	
Quality Criteria <i>how/with what indicators the quality of the activity result will be measured?</i>	Quality Method <i>Means of verification. What method will be used to determine if quality criteria has been met?</i>	Date of Assessment <i>When will the assessment of quality be performed?</i>
Number of workshops and trainings conducted Accomplishment level of participating insurance providers after trainings Number of certificates issued to the staff of the insurance providers	Annual reports Training Evaluation Survey	From 3 rd quarter 2009 till the end of the project
Number of specific products designed for the poor and low income people Number of insurance providers which offer micro-insurance products	Data will be obtained from the insurance providers. Client Satisfaction Survey will be conducted to check an appropriateness of the products for the poor and vulnerable people. Progress reports: quarterly, annually	4 th quarter, 2009 Piloting will continue till the end of the project.
Output 3: Improved policy and regulatory frameworks on micro-insurance		
Activity Result 1	Legal and regulatory bottlenecks for the micro-insurance development identified	Start Date: 3 rd quarter, 2009 End Date: 2 quarter, 2010
Purpose	To identify the legal challenges for the micro-insurance sector development	
Description	Assessment of the policy and regulatory framework, prioritization of possible project intervention at the policy level, and development of the action plan	

Quality Criteria <i>How/with what indicators the quality of the activity result will be measured?</i>	Quality Method <i>Means of verification. What method will be used to determine if quality criteria has been met?</i>	Date of Assessment <i>When will the assessment of quality be performed?</i>
The results of the assessment identify the bottleneck of the current regulatory framework The possible project intervention at the policy level prioritized Action Plan prepared	Review and confirmation of the assessment results Action plans Annual reports	Semi-annually
Activity Result 2	Capacity of the FRC in regulating and monitoring micro-insurance industry developed	Start Date: 3 rd quarter End Date: 1 st quarter, 2010
Purpose	To build the capacity of the regulator's capacity and increase the ways of delivery of micro-insurance services	
Description	Skill trainings and knowledge building of the RFC staff, and coordination of policy dialogues among the FRC, insurance providers and other stakeholders.	
Quality Criteria <i>how/with what indicators the quality of the activity result will be measured?</i>	Quality Method <i>Means of verification. What method will be used to determine if quality criteria has been met?</i>	Date of Assessment <i>When will the assessment of quality be performed?</i>
Number of technical assistance conducted Number of policy dialogues and their results (follow-up actions taken)	Annual reports Training Evaluation Survey	Annually Upon the completion of respective technical assistance
Activity Result 3	Regulatory framework for the partnership between insurance providers and MFIs (potential delivery agents) improved	Start Date: 4 th quarter, 2009 End Date: in a continues manner
Purpose	To facilitate the better cooperation between insurance providers and potential delivery channels.	
Description	Identification of the existing micro-insurance delivery channels and dominant delivery mechanism, facilitation between insurance providers and the identified delivery channels.	
Quality Criteria <i>How/with what indicators the quality of the activity result will be measured?</i>	Quality Method <i>Means of verification. What method will be used to determine if quality criteria has been met?</i>	Date of Assessment <i>When will the assessment of quality be performed?</i>

Number of potential delivery channel identified Number of delivery channels in operation with the project's facilitation	Annual reports	Annually
Output 4. Increased public awareness and knowledge on micro-insurance		
Activity Result 1	Public awareness toward micro-insurance increased through variety of public outreach activities	Start Date: 3 rd quarter, 2010 End Date: till the end of the project
Purpose	To increase the ways of delivery of micro-insurance services	
Description	Organizing the public awareness campaign at the early stage of the project, development of the campaign strategy, determination of the campaign method, and focus groups discussions.	
Quality Criteria <i>How/with what indicators the quality of the activity result will be measured?</i>	Quality Method <i>Means of verification. What method will be used to determine if quality criteria has been met?</i>	Date of Assessment <i>When will the assessment of quality be performed?</i>
Number of advocacy activities conducted	Annual reports	Annually (from 4 th quarter of 2010)
Activity Result 2	Awareness and knowledge of the government officials, policy makers, the insurance industry and other stakeholders on micro-insurance increased	Start Date: 3 rd quarter, 2010 End Date: till the end of the project
Purpose	To expand the micro-insurance knowledge of the stakeholders and to make understand its importance	
Description	Conducting an awareness activity for all stakeholders (Parliament Members and respective officers in the Ministries, and agencies and micro-insurance providers), development of awareness raising strategy, roundtable discussion, short-training, and brochures.	
Quality Criteria <i>How/with what indicators the quality of the activity result will be measured?</i>	Quality Method <i>Means of verification. What method will be used to determine if quality criteria has been met?</i>	Date of Assessment <i>When will the assessment of quality be performed?</i>
Number of focused advocacy activities conducted	Annual reports	Annually (from 4 th quarter of 2010)

VII. LEGAL CONTEXT

This document together with the Country Programme Action Plan (CPAP) signed by the Government and UNDP which is incorporated by reference, constitute together a Project

Document as referred to in the Standard Basic Assistance Agreement (SBAA) and all CPAP provisions apply to this document.

Consistent with the Article III of the SBAA, the responsibility for the safety and security of the implementing partner (formerly “executing agency”) and its personnel and property, and of UNDP’s property in the implementing partner’s custody, rests with the implementing partner.

The implementing partner shall:

- a) put in place an appropriate security plan and maintain the security plan, taking into account the security situation in the country where the project is being carried;
- b) assume all risks and liabilities related to the implementing partner’s security, and the full implementation of the security plan.

UNDP reserves the right to verify whether such a plan is in place, and to suggest modifications to the plan when necessary. Failure to maintain and implement an appropriate security plan as required hereunder shall be deemed a breach of this agreement.

The implementing partner agrees to undertake all reasonable efforts to ensure that none of the UNDP funds received pursuant to the Project Document are used to provide support to individuals or entities associated with terrorism and that the recipients of any amounts provided by UNDP hereunder do not appear on the list maintained by the Security Council Committee established pursuant to resolution 1267 (1999). The list can be accessed via <http://www.un.org/Docs/sc/committees/1267/1267ListEng.htm>. This provision must be included in all sub-contracts or sub-agreements entered into under this Project Document.

VIII. RISK LOG MATRIX

Risk ID	Description	Date identified	Type	Impact and probability scale 1-low; 5-high		Countermeasure / management response	Owner	Submitted/ Updated by	Timing of update	Current status
				Impact	Probability					
01	Unfavourable external economic conditions: Global Economic crisis, exchange rate fluctuation, inflation, etc.)	During project document development (December 2008)	Financial	4	5	Discuss and consider next measures	Project Board	NPM	Quarterly	
02	Decreased capacities and commitment/ involvement of participating insurance providers	During project document development (December 2008)	Operational	5	3	A) negotiate with the participating insurance providers to identify causes and background B) seek a new insurance provider, if necessary	Project Board & NPD	NPM	Quarterly	
03	Decreased support & declined confidence of FRC due to changes in the GOM's priorities	During project document development (December 2008)	Political	4	2	High level discussions with UNDP and the FRC	Project Board & NPD	NPM	Quarterly	
04	Poor strategy and policy guidance of the Project Board	During project document development (December 2008)	Organizational	3	2	PD's interaction with PB members to stimulate proactive contribution	UNDP, NPD & NPM	NPM	Quarterly	
05	Project financial insufficiency for the	During project	Financial	4	1	Identify requirements / review and revise the	Project Board,	NPM	Quarterly	

	work to be undertaken (potential project expansion/extension, overspending)	document development (December 2008)					AWPs and carry out resource mobilization for additional funding	NPD & NPM			
06	Weakened economic capacity of the poor and low income people to afford the micro-insurance products	During project document development (December 2008)	Operational	5	4	Review the current micro-insurance package and make necessary adjustment. Strengthen the local advocacy and promotion activities to build the clients' trust in the micro-insurance	NPM & community facilitators	NPM	Quarterly		
07	Inefficient project management and low performance of the project staff including staff turnover and understaffing	During project document development (December 2008)	Operational	4	2	Reassess management arrangements for the project's daily operation / continued training and capacity development of the project staff	NPD & NPM	NPM	Quarterly		