



SLP-3

PROJECT PROGRESS REPORT

June 30th 2015 – December 31st 2016

By the Project Implementation Unit

Jan 1st 2017

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PROJECT OVERVIEW

Project name, ID:	Sustainable Livelihoods Project – 3, P125232
Address of the PIU, Phone:	Room #701, Level 7, Max Tower Juulchin street, 4th khoroo, Chingeltei district, Ulaanbaatar, Mongolia Phone number: 70009828
Task Team Leader:	Helene Carlsson Rex
Project Coordinator:	Enkh-Undram Bayartogtokh
Total Project Cost:	USD36.2 million
Financing Source:	USD24.8 million – International Development Association (IDA) (credit) USD11.4 million – SWITZERLAND Swiss Agency for Dev. & Coop. (SDC) /grant/
Project Approval Date:	2015.04.30
Project Implementation Start and Closing Date:	2015.07.30 - 2018.12.31
Progress report period:	2015.07.30 - 2016.12.31
Report date:	2017.01.01

PROJECT OBJECTIVE AND COMPONENTS

SLP-3 objective is to improve governance and community participation for the planning and delivery of priority investment in rural areas of Mongolia.

There are three interrelated components that work together to achieve overall objective of SLP-3:

A. Component 1: Capacity Building for Local Governance and Livelihoods.

The objective of Component 1 is to “build capacity at local and national level for the implementation and further development of the Government’s programs and mechanisms for supporting rural development”. This will in particular strengthen local governments’ capacity for effective, efficient and timely implementation and management of the LDF. Based on need, SLP-3 will provide local authorities and communities training and technical assistance related to planning, budgeting and implementation of the LDF.

B. Component 2: Good Governance Performance-Based Support Program.

The objective of Component 2 is 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.” More specifically, this component will provide an incentive for good performance in the entire Soum Public Financial Management annual cycle for LDF and other public resources by providing an annual performance based top-up fund to selected soums based on the outcomes of soum annual performance assessment (APA).

C. Component 3: Project Management and Monitoring and Evaluation.

Activities under Component 3 will support the functioning of the PIU, the monitoring and evaluation (M&E) of the efficiency and effectiveness of SLP-3, as well as providing support to the MoF in strengthening its M&E system for monitoring LDF implementation and results.

PROJECT MANAGEMENT AND ORGANIZATION

Project Steering Committee (PSC)

The first Project Steering Committee that provided oversight of project implementation ensuring sectorial coordination and technical guidance to the PIU was established by the Order #274 dated in Oct 2nd, 2015 of the Ministry of Finance with the following members.

№	Project Steering Committee members	Title
Chairman of the Committee		
1	B. Gantulga	Head of Development Financing and Debt Management Department, MoF
Members		
2	G. Ganbold	Deputy Chairman, Cabinet Secretariat of Government Mongolia
3	Yo. Erdenebileg	Advisor to the Finance Minister, MOF
4	A. Munkhbaysgalan	Head of Investment Budget Department, MoF
5	E. Khangai	Head of Legal and Procurement Department, MoF
6	Ts.Bayarkhuu	Head of Finance and Economic Department, Ministry of Education, Culture and Science
7	G. Munkhbat	Head of Public Administration and Management Department, Ministry of Industry
8	L. Munkhzul	Head of Social Protection Policy Implementation and Coordination Department , Ministry of Population Development and Social Protection of Mongolia
9	E. Oyunsuren	Head of Monitoring and Internal Audit Department, Ministry of Health and Sport
10	N. Narangerel	Head of Debt Management Division, Development Financing and Debt Management Department, MoF

11	M. Batgerel	Head of General Local Development Fund Division, Fiscal Policy and Planning Department, MoF
12	B. Sukh-Ochir	Head of Internal Audit, Monitoring and Evaluation Division, Budgetary Control and Risk Management Department, MoF
13	B. Tsogbadrakh	Head of Finance and Economic Division, Ministry of Food and Agriculture
14	G. Ulziijargal	Consultant of Development Financing and Debt Management Department, MoF
Project Steering Committee – Secretary		
15	J. Amarsanaa	Project Coordinator, SLP-3

Due to new government establishment after a Parliamentary election, the Project Steering Committee was re-established with the following members under the Order #367 dated in Nov 11th, 2016 of the Ministry of Finance.

№	Project Steering Committee Members	Title
Chairman of the Committee		
1	B.Nyamaa	State Secretary, MoF
Members		
2	J.Ganbat	Director General, Fiscal Policy and Planning Department, MoF
3	B.Gantulga	Director General, Development Financing and Debt Management Department, MoF
4	A.Munkhbaysgalan	Director-General, Investment Budget Department, MoF
5	E.Khangai	Director-General, Legal and Procurement Policy Department, MoF
6	N.Narangerel	Head, Debt Management Division, Development Financing and Debt Management Department, MoF
7	B.Sukh-Ochir	Head, Internal Audit, Monitoring and Evaluation Division, Budgetary Control and Risk Management Department, MoF
8	B.Tsogbadrakh	Head, Financial Division, Ministry of Food, Agriculture and light industry
9	P.Zorigtbaatar	Senior Referent, Local Management and Coordination Department, CabSec
10	G.Ulzijjargal	Officer, Debt Management Division, Development Financing and Debt Management Department, MoF

Project Steering Committee – Secretary		
11	B.Enkh-Undram	Project Coordinator, SLP-3
Observers		
12		Representatives from the World Bank
13		Representatives from the SDC

Project Implementation Unit (PIU)

In the second half of 2016, the PIU recruited staffs for newly created positions of a Communication Officer and a Capacity Building Specialist, and unfilled positions of a Project Coordinator, Technical Backstopping Consultant on Procurement and Budget Execution and PIU Driver. The contract with the Technical Backstopping Consultant on Pastoral Risk Management has ended. The ToR for this position has been revised and approved by the Bank. In December 2016, the PIU Driver and the Financial Management Specialist have resigned. These positions have not yet been filled. The Technical backstopping consultant on Monitoring, Evaluation and Reporting joined the team on Dec 2015 and is on maternity leave. The contract has ended on Dec 2016. All the positions are to be advertised and filled once the Tender Evaluation Committee on selection of staffs and consultants are established at the MOF.

Current Personnel of the Project

Position	Staff	Date Joined the Team
Project Coordinator	Enkh-Undram Bayartogtokh	November 2016
Senior Technical Coordinator	Ganchimeg Perenlei	September 2015
Procurement Specialist	Jigjid Banzragch	September 2015
Monitoring and Evaluation Officer	Orgilbold Tumurbaatar	June 2016
Communication Officer	Batzolboo Batbold	November 2016
Capacity Building Specialist	Munkhbayar Alгаа	November 2016
Financial Management Specialist	The position is not filled at the moment	
Administrative Assistant	Munkhdelger Tsog	September 2015
Driver	The position has not yet been filled	
Technical Backstopping Consultant on Financial	Khosbat Batsukh	August 2016

Management and Budget Preparation		
Technical Backstopping Consultant on Monitoring-Evaluation and Reporting	Enkhmaa Battseveen /on maternity/	December 2015 /the contract ended on Dec 2016/
Technical Backstopping Consultant on Procurement and Budget Execution	Khorolmaa Bold	November 2016
Technical Backstopping Consultant on Community Participation	Munkhzul Dashnyam	December 2015
Technical Backstopping Consultant on Pastoral Risk Management	The position has not yet been filled	

PROJECT PERFORMANCE

Summary of progress

SLP3 is designed to support successful implementation of the Local Development Fund (LDF). The Project is an innovative financing instrument for soums, and largely inspired by groundwork under SLPI and SLPII through capacity building for soums and through provision of Performance Based Grants as incentives for good management by soums.

Component 1: Capacity Building for Local Governance and Livelihoods.

Project modified structure: During the Mid Term Review conducted in October 2016, it was decided that Component 1 capacity-building activities to be modified focusing more on strengthening existing systems. At the time of the original Project design, Component 1 focused more on raising awareness about the Local Development Fund (LDF). The LDF has since been implemented for several years and the Ministry of Finance and other central government departments have been putting in place capacity support arrangements for soums at aimag level. In other words, the project was proposed to include activities strengthening capacities of the aimag administration to support, monitor and empower soum institutions and bagh communities. In the framework of this change, the project structure at local level needed to be modified.

Capacity building activities: Given the situation, the Project was proposed to have more demand driven implementation arrangements, and stronger needs assessment process, strategic and annual capacity building planning, including at the aimag level, and more varied capacity building responses and delivery mechanisms, based on needs.

Component 2: Good Governance Performance Based Support Program (USD21.6 million)

Component 2 of the Project consists of two sub-components: i) Performance-based financing (USD 20.7 million) and ii) Annual Performance Assessment (USD 0.9 million). The PAD Component 2 budget comprises an allocation of USD20.7 million to be disbursed over 3 years as Performance-Based Grants (PBGs), to be awarded each year to the best-performing soums on the basis of Annual Performance Assessment (APA) results, and equivalent to a 25% top-up of their regular LDF allocations.

Annual Performance Assessment (APA): The first round of Annual Performance Assessment process was conducted in 330 soums of all 21 aimags of Mongolia. The APA was based on methodology developed by PIU, together with Ministry of Finance, international consultants and approved by the Project Steering Committee. The APA results were produced with top-ranked soums qualifying for PBGs to be financed from USD2.97 million allocation for FY2017. The APA results were approved by the Ministry of Finance and sent for Project Steering Committee approval upon which the allocations to be officially incorporated into the State revised Budget.

Restructuring Performance Based Grants Funds: The Mid-Term Review conducted in October 2016 concluded that while both sub-components remain relevant, given a reduction in the Government's contribution to the LDF, there is a need to restructure the performance-based financing budget allocation into two parts i) bridging support to general Soum LDF allocations (USD12 million) and ii) Performance Based Grant support (USD8 million).

Component 3: Project Management and M&E (USD3.6 million)

The project experienced significant delays with implementation. However, during the mid-term review conducted in October 2016 by the World Bank noted some improvements with regards to both Project Management and M&E aspect of the Project.

Since the start of the Project, two missions and Mid-Term review were conducted to evaluate up-to-date progress of the project.

The Project Implementation manual was finalized and approved by the Project Steering Committee and is now in use.

In the reporting period, the PIU has recruited most of its staff and technical backstopping consultants. Few positions are expected to be filled within a month.

Component 1: Capacity Building for Local Governance and Livelihoods

Soum Support Team recruiting and training

Recruiting SSTs: As per Project Appraisal document, capacity building for local administrations and local citizens regarding the LDF shall be implemented through Soum Support Teams with 5 members in the aimag level. Hence, a total of 105 Soum Support Team members in each 21 provinces were recruited and signed contracts with the PIU and the MoF on February 1st 2016 for 6 month's probation period. The team consisted of following members with specific functional duties:

1. Team leader & Monitoring and Evaluation
2. Community Participation
3. Financial Management and Budget Preparation
4. Pastoral Risk Management
5. Procurement and Budget Execution

TORs for SST members were developed jointly by the WB and the PIU.

Training for SSTs: In order to provide full acknowledged with the project objectives and activities, and further plans of the project, the PIU provided a training for SST team leaders. The general topics of the training were "Overview of the SLP-3 and its Project Implementation Manual", "Overview of the Budget Law and Local Budget", "Community and citizen participation in the LDF plan development and execution", "LDF implementation, its procurement process, M&E and Reporting, and LDF Management Information system", and "Annual assessment on LDF performance and performance based grants".

However, because of project re-structuring, teams of 5 members in each aimag in total of 105 SST members had to be replaced by a single staff (LPO- Local Project Officer), thus initial 20 SST members' contract ended by July 31 based on result of WB and MOF's reviews and the rest of 85 contracts extended only until September 31.

A new structure of the project at the local level, ALST and LPO: The former Soum Support Teams consisted of five Project consultants at each aimags delivering largely training of trainers and cascade mode are to be shifted to an Aimag Level Support Team (ALSTs) approach. The ALSTs are to be consisted of existing aimag officials responsible for delivering LDF related budgeting, planning and implementation support to soums and baghs. From the Project side, the ALSTs are to be supported by Local Project Officers (LPOs) who will facilitate project activities at local level. The scope of work and composition of ALSTs were identified and reflected in the respective volumes of PIM. Terms of Reference of a Local Project Officer was jointly developed by the PIU, WB and the MoF. NoL was provided by the WB. The role will be advertised through public media and the recruitment to have taken place by the end of March 2017.

This new structure was also recommended by the field trips to Bulgan and Khuvsgul aimags by Roger Shotton, an international consultant, and the PIU staff, where capacity building needs and willingness of aimags to participate in capacity building activities were especially reviewed.

Surveys and needs assessments by SSTs

Evaluation of staff proficiency and capacity at local administrations and LDF operations: In order to feed development of the Project Implementation Manual, SSTs conducted an evaluation on 74 soums of 21 aimags in order to identify current status of capacity regarding LDF operation, as part of Component 1:

Capacity Building for Local Governance and Livelihoods. The evaluation consisted of two parts: i) Quality assessment of current operation of LDFs in soum level, ii) Initial assessment for capacity building implementation. Three to four soums from each provinces were selected for the evaluation including one at aimag center, one located most remotely and one based on demography and economic characteristics. The evaluation was conducted with relevant staff and officials of soum and province administrations. With the evaluation findings, the Project Implementation Manual was rationalized further.

Survey on LDF operation in aimags: The survey was conducted as an additional information regarding LDF operation at local level and to be used for developing capacity building plan as another source of needs assessment. The survey focused on two groups including ordinary citizens and local administration staff who live and work in selected soums, covering all 21 aimags and selected 178 soums out of 330.

The objectives of the survey was:

- to determine the level of local citizens' awareness of LDF
- to determine level of awareness of LDF and relevant capacity of local administration staff
- to identify issues and obstacles around LDF performance

The survey was conducted in August, 2016 by Soum Support Teams in the field and compiled by PIU Backstopping consultants in September and October, 2016.

Capacity building activity plan

Development of Capacity Building Plan: Capacity Building Plan for 2017 has been drafted and is expected to be finalized once other partners' and stakeholders' review and comments obtained. The plan was drafted based on needs identified through above mentioned surveys and evaluations, site evaluations by the PIU and Annual Performance Assessment results and findings, and research on current capacity building institutions. This will be further developed as a consolidated capacity building plan in working with stakeholders including MoF, SDC, ALST and other institutions.

In addition to surveys and evaluations done by SSTs, the PIU along with its international consultants run site evaluations in Baruunburen soum of Selenge province and Bayan-Undur soum of Orkhon province respectively. The Project team had meetings with officials of soum representative meetings and governor's office and exchanged experiences on current performances of LDF and areas where capacity building activities are required.

The PIU and its technical consultants have collected information of governmental and non-governmental organizations, and donor organizations that provide consulting and training services on capacity building at both national and local levels. Based on this, the PIU is now able to initiate dialogue with institutions in the area of capacity building.

National level workshop on Capacity building on Local Financial Management: The workshop is planned to take place in January and February 2017. The objective of the workshop is to update the participants with relevant laws and regulations and an introduction to SLP-3. As a result of the workshop, not only the aimag officials will have improved knowledge on local financial management system but also the workshop will be a significant interaction between the project and a key stakeholder groups on further cooperation. There will be 4 participants from each 21 aimags including Aimag Deputy Governor, Head of Finance and Treasure Department, Head of Investment and Development Policy Planning Department and Head of Local Property Department.

Component 2: Good Governance Performance-Based Support Program

Component 2 of the Project consists of two sub-components: i) Performance-based financing (USD 20.7 million) and ii) Annual Performance Assessment (USD 0.9 million). The PAD Component 2 budget comprises an allocation of USD20.7 million to be disbursed over 3 years as Performance-Based Grants (PBGs), to be awarded each year to the best-performing soums on the basis of Annual Performance Assessment (APA) results, and equivalent to a 25% top-up of their regular LDF allocations.

Development of criteria and methodology guidelines of the APA on LDF operation

Assessment criteria was developed based on reports by National Audit Office, laws and regulations related to the LDF, and international practices of PBGs. APA criteria and methodology guidelines were jointly developed by the PIU staffs, international consultants staffs from Former LDF Division of the MoF.

There are 35 indicators developed after 3 trials of field tests in the soums and provinces including Erdenebulgan, Ikh-Tamir and Chuluut coums of Arkhangai province, Zamiin-Uud, Ulaanbadrakh, Sainshand and Airag soums of Dornogovi province, Jargalanat, Galuut, Bayan-Ovoo and Bumbergur soums of Bayankhongor province, Jargalant soum of Tuv province, Orkhon soum of Darkhan-Uul province, and Khuder soum of Selence province.

Criteria and methodology guidelines of the APA were finalized upon completing the field tests at the end of June 2016 and the PSC approved the criteria and the methodology in July, 2016.

Since APA evaluates level of governance on LDF, 2016 APA covered LDF operation throughout the past three years, especifically, the last year of LDF performance, which is 2015, LDF preparation of 2016 and the citizen's participation in planning of LDF for budget year 2017 .

Procurement of APA contractors

Overall scope of APA was divided into 3 lots, and 16 candidates expressed their interests in this assignment following the announcement made in May 2016. The technical evaluation team was formed as per Order # A/134 of the State Secretary of the MoF dated May 2nd 2016, and evaluated all Expressions of Interests. Two consulting firms Economic Research Institute and MCDS were selected through the evaluation process. Two lots were allocated to the MCDS and one lot were allocated to the Economic Research Institute. The technical evaluation team conducted evaluation on technical and financial proposals of the two candidate companies, and the result was finalized on the evaluation team meeting held in June 24 2016 and was shared with the World Bank.

Training on Annual Performance Assessment (APA) on Soum LDF operation

The PIU provided evaluators from the two consulting firms training on APA criteria and evaluation methodology to make evaluation procedure consistent among all evaluators. The training was delivered to each lots separately in order to increase effectiveness of the training. Each lot training lasted for 1 day and after 3 days training, there was wrap-up session held on 4th day for all field team leaders and lot supervisors.

APA results review

Assessments were prevented from evaluation mistakes and kept under the same principles. Each APA result was sent to the PIU within 2 days after each field work together with the Lot Leader's review. The PIU staff assigned for each of three lots checked and confirmed every evaluation result on daily basis. APA field work took place between September 26 and November 26, 2016. The field work covered all 330 soums and was divided into 3 lots by 2 selected consulting firms. The assessment was completed and the result was verified and compiled within scheduled period of time. The APA methodology and its results were introduced to the key people at the MoF.

Spot checks in the field

Through the spot checks, field evaluation works were monitored ensuring the correct procedure and against scheduled period of time. The first spot check was conducted between September 26-28 by the PIU staff who were in charge of reviewing APA results. The spot check was done in Tuv, Dundgovi, Gobi-Sumber and Khentii aimags respectively. Necessary advices and comments were given during the spot checks to the field teams since it was their first assessment. Between October 1-12, , the second spot checks are made by the representatives from the MoF, the World Bank and the WB mission team. The spot check was done in Dundgobi, Selenge, Khuvsgul, Khovd and Uvs aimags respectively. Spot checks covered all 3 lots and 2 consulting firms.

Cross check APA results against compliance audit results by aimag audit offices.

APA results were verified for major discrepancies. The purpose of the cross check was to see whether soums with poor performance in soum compliance audit results were also revealed through the APA. Most of the cases, the results were matched except the cases where relevant year and assessment criteria were not the same.

Contract Closing of APA Contractors

The deliverables of APA vonsultancy service was identified as below:

- Assessment sheets of all soums (hardcopies) with supporting documents (photocopies)
- Completion reports in required formats and contents
- Comments and Recommendations on further APAs

The APA results were introduced by the two consulting firms at a workshop organized by the PIU. The detailed information from the assessments were shared and further comments were provided.

List of soums awarded for the PBG in 2017

After verifying APA results, 154 soums have been selected for PBG in 2017. PBG was calculated as a 25% top-up of soums' regular LDF allocation in 2017. PBG allocation proposal has been submitted to the MoF for their review and proposed ranking of the soums to be approved by the Project Steering Committee in early 2017.

Component 3: Project Management and Monitoring & Evaluation

The Project Implementation Manual

The Project Implementation Manual (PIM) was approved by the PSC in November 11 2016, and started to be used as an implementation guidance. The initial version of the PIM was drafted in August 2016 by the PIU with the help from international consultants Jim Hancock and Roger Shotton. Later, project modifications were made during the midterm review conducted in October 2016 by the WB Mission. The PIM consists of following volumes:

1. Overview
2. Capacity building for Local Governance and Livelihoods Good
3. Governance Performance-Based Support Program
4. Project Monitoring, Evaluation and Reporting
5. Project Financial Management
6. Project Procurement
7. Environmental and Social Management Plan
8. Human Resources

The Midterm Review and Implementation support missions by the World Bank, SDC, MoF and the PIU

The Midterm review was carried out from Oct 11-21, 2016. The Objectives of the Midterm Review were to evaluate up-to date progress of the project, to identify further actions needed to intensify project activities and to discuss potential restructuring of the project. The mission report was shared with the stakeholders. Prior to the midterm review, there were two implementation support joint missions by the Word Bank and SDC. The first mission was carried out between February 28 and March 2, 2016, and the second mission was carried out between May 31 and June 68 2016. The objectives of the missions were to identify key actions in order to accelerate Project implementation and to improve overall Project performance. As well as, the missions were dedicated to update PIU work programs, and to provide a guidance on project activities based on findings and updates.

Other accomplishments

Registering for the Official Development Assistance Management Information System (ODAMIS) of the Government of Mongolia: SLP-3 is now registered for the system and all relevant available information was uploaded to the system. The system requires to have updated information on with the Project quarterly progresses, M&E reports, financial performances and the Project result indicator performance.

Project Work Plan and Procurement Plan for November and December of 2016 and 2017: Project Work Plan and Procurement Plan for November and December of 2016 and 2017 were approved by the PSC in November 11 2016.

The Baseline Survey: The TOR of the Baseline survey was developed by the PIU was approved by the WB. After a tender evaluation committee established by the MoF, the procurement notices of consulting service will be announced to the public.

Results Indicators: The PIU and WB team discussed the current PDO indicators, Intermediate Indicators and result framework in light of the planned project re-structuring. Further discussions are to take place during the next mission by the international consultants in February 2017.

The PIU Office has been moved: The office moved in July 2016 to a new location. The new address is: Room #701, Level 7, Max Tower , Juulchin street, 4th khoroo, Chingeltei district, Ulaanbaatar, Mongolia

Disbursement: The Project was envisioned to provide a small amount of PBGs in total in the first year. The planned total PBG disbursement of FY2017 is USD2.98 million. The PIU prepared withdrawal application for Project Operating costs and withdrawal application for the PBG in Dec 2016. The disbursement ceiling of the IDA allocation was increased to USD 3.500.000 in Dec 2016. The fund has now been allocated to the PIU IDA account in preparation to first year PBG distribution.

Remark: The Project Result Framework is under revision and is, therefore, not available to be reported here.

IMPLEMENTATION ISSUES

Since its start, the Project has been suffering from weak implementation arrangements coupled with political uncertainties during an election year. There were several issues that slowed down the project progress as well as caused inefficient expenses for the Project. During the reporting period; however, some of the issues were resolved. For example, the project implementation manual was not in place at the time of the start of the project. The capacity building methodology as provided in the initial project documents including the PAD was not suitable for the current environment. The hiring process of the SST members took place when many uncertainties around the project implementation was taking place.

At the time of the report, following issues are remaining and waiting for solutions:

- There will be a significant reduction in the size of LDF allocations to soums over the next few years, due to the overall fiscal constraints currently faced in Mongolia, and the consequent amendments to the Integrated Budget Law. This requires re-strategizing of the PBG allocations
- SDC has informed the World Bank to reduce its grants contribution to the project by 6 million USD, which is almost a half of initially agreed contribution. SDC expects substantial reduction in budget taking into account the revised arrangement of support structure at aimag level.
- Even though there are positive achievements are noted, the project is still behind schedule and its disbursement rate remains low. Thus, it has been concluded that it will not be possible for the project to meet its objectives within the original time frame. Therefore, it has been proposed, the project should be extended by two years until the December 31, 2020.