

Mongolia

Ex-Post Evaluation of Japanese ODA Loan Project

“Two-Step-Loan Project for Small and Medium-Scaled Enterprises Development and Environmental Protection”

External Evaluator: Keisuke Nishikawa, Japan Economic Research Institute Inc.

0. Summary

This project aimed to achieve sustainable growth and poverty reduction by promoting employment creation and environmental conservation in Mongolia through the provision of long-term funding to private small and medium-sized enterprises. While this project was consistent with the development plan and needs of Mongolia as well as Japan’s ODA policy, some issues were identified in terms of the implementation approach of environmental protection measures and the plan of consulting services. Therefore, the relevance of the project was fair. With regard to project effectiveness, significant improvements were observed on the indicators for small and medium enterprise development, though the data after the project completion was not sufficiently collected. On the other hand, the effectiveness of environmental improvement was limited as a whole as it cannot be said that sufficient data for environmental protection-related indicators was captured, and definitions of the environmental protection project were ambiguous. In terms of project implementation, the efficiency of the project was high, as the project cost and period were both within the plan. With regard to operation and maintenance, the sustainability was judged to be fair as there were some issues in the institutional and technical aspects, while no issues were identified in the financial aspect and the current status.

In light of the above, this project is evaluated to be partially satisfactory.

1. Project Description



Medical equipment purchased with the sub-loan from this project (Obstetrics department at a hospital in Ulaanbaatar)



Water purifier purchased with the sub-loan from this project (Purified water manufacturer in the suburb of Ulaanbaatar)

1.1 Background

In Mongolia, a market-oriented economy was promoted under the support from international organizations and bilateral donors since the beginning of the 1990s, and economic liberalization, sales of state-owned assets and stabilization of macro-economy progressed. In the corporate sector, a number of private businesses were established and the number of registered companies increased substantially, as the market-oriented economy was promoted. Out of the registered companies, small and medium enterprises (hereinafter referred to as SME) with less than 50 employees accounted for 98% of the total companies, 32% of the total sales and 42% of the total employees, playing a vital role in terms of employment and production in the Mongolian economy. In response to higher capital needs associated with the growth of the Mongolian economy, credit specifically for private businesses had expanded, but bank lending was mostly for short terms within a year, and nominal lending rates stayed at high levels due to higher credit risks and deposit interest rates hovering at high levels reflecting competitive deposit acquisition. Under such circumstances, long-term funding needs for capital investment were not met for SMEs, particularly for SMEs with lower creditworthiness. A know-how related to long term lending and lending to SMEs was not sufficient in the banking sector, and human resource development in this sector was also an urgent issue.

With regard to the environmental sector in Mongolia, especially in the capital Ulaanbaatar, where economic activities are concentrated, heating with the use of coal which was a main source of energy in the country increased with the population increase due to migration from rural regions and economic development. Coupled with basin-shaped landform, it had caused serious air pollution and health problems, and a treatment of waste water, waste products, etc. had also become problematic.

1.2 Project Outline

The objective of the project was to support private sector development and environmental protection by providing long-term finance to small and medium-scaled enterprises mainly in agricultural and industrial sectors for their capital investment, to projects for environmental protection, and by providing technical assistance to commercial banks and small and medium-scaled enterprises, thereby contributing to sustainable growth through employment creation and environmental protection, as well as poverty reduction in Mongolia.

Loan Approved Amount / Disbursed Amount	2,981 million yen / 2,971 million yen
Exchange of Notes Date / Loan Agreement Signing Date	March, 2006 / March 2006
Terms and Conditions	Interest Rate 0.75% Repayment Period 40 years (Grace Period) (10 years) Conditions for General Untied Procurement
Borrower / Executing Agency	Government of Mongolia / Counterpart Steering Committee (CSC)
Final Disbursement Date	July, 2011
Main Consultant	KRI International Corporation (Japan)
Feasibility Studies, etc.	“Two-Step-Loan Project for Small and Medium-Scaled Enterprises Development and Environmental Protection” Special Assistance for Project Implementation (2009)
Related Projects	[ODA Loan] - Two-Step-Loan Project for Small and Medium-Scaled Enterprises Development and Environmental Protection (Phase II) (L/A signed in November, 2010) [Technical Cooperation] - The Mongolia-Japan Center for Human Resources Development Project (Phase I: January 2002 – January 2007, Phase II: January 2007 – January 2012) - Project for Capacity Development of Business Persons through Mongolia-Japan Center for Human Resources Development (January 2012 – January 2015 (plan)) - Ulaanbaatar City Air Pollution Measures Capacity Development Project (Phase I: March 2010 – March 2013, Phase II: November 2013 – November 2016 (scheduled))

	<p>[Other Donors]</p> <ul style="list-style-type: none"> - The World Bank, “Private Sector Development Credit Project 1 and 2” - KfW, “SME Project” - Asian Development Bank (ADB), “Financial Sector Reform”, “Housing Sector Finance”
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2. Outline of the Evaluation Study

2.1 External Evaluator

Keisuke Nishikawa, Japan Economic Research Institute Inc.

2.2 Duration of Evaluation Study

This ex-post evaluation study was conducted with the following schedule.

Duration of the Study: August 2013 – November 2014

Duration of the Field Study: October 13 – 29, 2013 and March 31 – April 5, 2014

2.3 Constraints during the Evaluation Study

With regard to quantitative indicators to evaluate effectiveness, it was not specified that the executing agency would collect and develop data from the sub-loan borrowers after this project was completed at the end of 2009. As for environmental protection-related indicators, monitoring activities of indicators were not sufficiently conducted during the project implementation as neither a definition of ‘environmental protection’ has been set, nor quantitative indicators have been determined. Therefore, this ex-post evaluation survey was conducted under the limitation of data related to these indicators.

3. Results of the Evaluation (Overall Rating: C¹)

3.1 Relevance (Rating: ②²)

3.1.1 Relevance to the Development Plan of Mongolia

3.1.1.1 SME Policy

In Mongolia, a market-oriented economy was promoted from the beginning of 1990s, and economic growth and poverty reduction progressed with the private sector development as a driving force. An SME policy during the appraisal of this project was the poverty reduction strategic paper ‘Economic Growth Support and Poverty Reduction Strategy (EGSPRS)’ formulated in July 2003, in which an establishment of institutions and environment, as well as human resource

¹ A: Highly satisfactory, B: Satisfactory, C: Partially satisfactory, D: Unsatisfactory

² ③: High, ②: Fair, ①: Low

development for transition to market economy and private sector-led growth, was listed as one of five focused areas. The government's 'Action Plan for 2005-2008', prepared at the end of 2004 based on the EGSPRS, placed an emphasis on support to SMEs and enhancement of financial intermediation capacity as a focused area.

At the time of ex-post evaluation, the 'Millennium Development Goals-Based Comprehensive National Development Strategy' targeting the year 2021 put forward an acceleration of economic growth and a creation of knowledge-based economy in the medium to long-term. In addition, the 'Action Plan for 2012-2016' lists five areas including the pursuit of securing employment and income as well as environmental protection as major goals. Furthermore, the 'SME Development Program' for 2014-2016 was being formulated, which was expected to have five objectives, such as a provision of taxation and financial support mechanisms to SMEs, and a support to SMEs in market expansion which are under three programs, such as the development of the business environment, and industrial parks.

3.1.1.2 Environmental Sector Policy

At the time of project appraisal, EGSPRS, described above, listed the promotion of a well-balanced environment and sustainable regional development as one of the priority areas.

An approach to place importance on the environmental sector was observed consistently after that. At the time of ex-post evaluation, the 'Action Plan 2012-2016', indicating the overall policy direction, positioned green development as the cornerstone, with a particular focus on the development of renewable energy. Also, in 2012, a number of environment-related laws were streamlined by integrating 18 similar laws into eight laws. In this way, environmental laws and systems have been strengthened.

3.1.1.3 Financial Sector Policy

At the time of project appraisal, the 'Action Plan 2005-2008' placed the strengthening of the financial institution's intermediation function as a priority challenge, and had a policy to maintain the soundness of the financial sector and promote the development of the financial sector led by the private sector based on market rules. It also listed a policy to provide long-term finance through private financial institutions and to foster long-term financing market.

At the time of ex-post evaluation, the 'Action Plan 2012-2016' has set out a plan to continuously supply long-term finance to the private sector through an establishment of a credit funds for textile and leather industries and an expansion of an SME

development fund to promote a livestock industry as a concrete measure of policy promotion for economic diversification.

Based on the above, this project can be said to have been consistent, both at the time of appraisal and ex-post evaluation, with Mongolia's SME development policy, strengthening of financial intermediation functions which support it, and the environmental protection policy.

3.1.2 Relevance to the Development Needs of Mongolia

3.1.2.1 Development Needs of Small and Medium Enterprises

At the time of project appraisal, it was an issue that a long-term finance of over a year for investment purposes was in short supply, particularly for SMEs with lower creditworthiness, despite high demand. A lack of know-how in various areas in the SME sector was hampering its growth and it was highly necessary to develop human resources in the areas such as management, finance, accounting, marketing, loan application, etc.

At the time of ex-post evaluation, while the number of firms has steadily increased, the structure in which the majority of private firms are SMEs (companies with less than 50 employees account for 96% of the total firms (2012)) has not changed (Table 1). It was observed from related government ministries comprising the executing agency, financial institutions, and companies visited, that support for SME development was continuously essential from the viewpoint of maintaining sustainable growth through diversification of domestic industries.

Table 1: Number of Private Firms in Mongolia

Number of Employees	2006	2007	2008	2009	2010	2011	2012
1 – 9	24,848	25,703	29,879	30,272	34,827	38,797	43,503
10 – 19	2,701	2,830	3,123	3,156	2,738	4,363	3,732
20 – 49	2,139	2,351	2,286	2,253	2,180	3,256	2,824
SMEs Total	29,688	30,884	35,288	35,681	39,745	46,416	50,059
Over 50	1,129	1,221	1,210	1,196	1,176	1,670	1,881
TOTAL	30,817	32,105	36,498	36,877	40,921	48,086	51,940

Source: Statistical Yearbook 2013 (National Statistical Office of Mongolia)

In terms of finance, firms are mostly dependent on the borrowing from banks holding more than 90% of the asset in the financial sector for their procurement of

funds. However, as a collateral requirement by banks is rigid and it is mainly real estate that is approved as collateral, it was heard from the interviews with SMEs that it was not rare that they could not receive sufficient loans.

3.1.2.2 Development Needs in the Environmental Sector

At the time of appraisal, as the air pollution problem in Ulaanbaatar was serious enough to cause health problems such as asthma in children, it was needed to switch from raw charcoal for fuel to coal-processed fuel such as charcoal briquette and to reduce the use of wood for ignition. However, it was difficult for the firms in this business area to obtain long-term funding for capital investment conducive to environmental improvement as the margins from investment were regarded generally low.

After that, rapid economic growth in Mongolia has led to an increase in the use of charcoal for heating, especially in winter in Ulaanbaatar, resulting in continuing serious air pollution. Although it was difficult to obtain data on annual changes in air pollution in the medium term at the same point, survey results and reports on air pollution have been published by JICA, World Health Organization (WHO), World Bank (WB), etc., showing that air pollution has been an ongoing issue to be resolved, even at the time of ex-post evaluation. In addition, there are still problems such as aggravation of water quality and soil contamination. While the environmental laws were gradually developed, a funding system for environmental protection projects cannot be said to have been well established at the time of ex-post evaluation.

3.1.2.3 Development Needs in the Financial Sector

At the time of project appraisal, a lack of know-how in various aspects such as the appraisal of long-term finance was hampering the growth of the banking sector in the financial sector in Mongolia, and it was considered highly necessary to develop human resources in long-term finance, risk assessment regarding credit for SMEs, asset management, and so on.

As a medium to long-term financing framework for SMEs in Mongolia, an SME Development Fund (with an interest rate of 7% at the time of ex-post evaluation and a repayment period of up to 5 years) was established in 1992, but few loans were made at its initial stage due to insufficient financial resources within the government. It gradually increased the amount of loans as the demand for funding became stronger, and the total amount of credited loans reached 390 billion Tugrik (approximately 23.68 billion yen (converted based on the rate in January 2014: Bank

of Mongolia)). The WB³ and KfW also implemented two-step-loan projects for private firms, but insufficient conditions of funding supply against demand have continued, as shown in the government survey result estimating that the private sector is still in need of 500 billion Tugrik (approximately 30.36 billion yen) in funding.

As shown above, while the majority of private firms are SMEs and their development is positioned essential for economic growth, and funding needs in the private sector are strong, insufficient collateral owned by SMEs and the limitation of low-interest and long-term loan systems have inhibited smooth financial arrangements. As for the environmental sector, Ulaanbaatar's air pollution in winter has been serious from the appraisal period to the ex-post evaluation period, and long-term financial arrangements for environment-related projects have remained uneasy.

Therefore, development needs in developing SMEs, improving the environment and fostering the financial sector have been high throughout the period from appraisal to ex-post evaluation. This project can be said to have been implemented by reflecting such development needs.

3.1.3 Relevance to Japan's ODA Policy

At the time of project appraisal, Japan's 'Country Assistance Policy for Mongolia', formulated in November 2004, and listed assistance to institutional development and human resource development for the transition to a market economy as one of the priority areas. Also, JICA's Medium-Term Strategy for Overseas Economic Cooperation Operations (FY2005-2007) also had an assistance policy to support a market-oriented economic reform including industrial development, institutional development and human resource development, to lift regional economies, and to provide support on intellectual cooperation and technical assistance for sector reform.

This project had an aim to provide financial support for the development of increasing SMEs and develop capacities of financial institutions in providing loans in Mongolia, and also support environment protection activities by firms. Therefore, this project can be said to have been consistent with the 'Country Assistance Policy for Mongolia' as well as JICA's Medium-Term Strategy for Overseas Economic Cooperation Operations.

3.1.4 Appropriateness of the Implementation Approach

As shown above, it was drawn that this project was consistent with Mongolia's

³ A total of 22.57 million US dollars was provided over two phases between 1995 and 2011.

development policy, development needs, and Japan's ODA policy. However, as described in detail later, sub-loans for environmental protection to support environmental protection efforts did not have definitions⁴ of environment-related projects eligible for loans, and their effect indicators with project implementation and monitoring mechanisms were not established. Based on these lessons, it was confirmed that the following project (Two-Step-Loan Project for Small and Medium-Scaled Enterprises Development and Environmental Protection (II)) formulated its own environmental guideline regarding the components of environmental protection loans (EPL), defining what kinds of projects would be approved as the EPL projects. Nonetheless, this project did not have a sufficient project design in its approach to achieve project objectives, and it was considered necessary to formulate a more concrete project plan by clarifying eligible project areas, selection processes and effective measurement methods, etc. to generate expected project outcomes.

However, having noted that there was an issue that the project planning was not sufficient, an introduction of EPL itself in this project to resolve environmental problems, such as air pollution in Mongolia, is consistent with development policies and needs. Also, it can be judged that an approach adopted by the project did not essentially hamper the generation of project effects.

Also, while there was a plan that a revolving fund would be established to manage funds with the repaid loans to be refinanced, a formulation of an operational guideline of the fund was not included in the initial components of consulting services. As a result, there emerged a need to add the consulting work item to formulate the operational guideline during the implementation of the project. On this point, it was also necessary to have formulated a more concrete plan in advance to sustain the effects generated in this project.

In light of the above, while this project was highly relevant to the development policy and development needs of Mongolia as well as Japan's ODA policy, there was a problem in terms of project implementation approach. Therefore, the relevance of the project is fair.

3.2 Effectiveness⁵ (Rating:②)

3.2.1 Quantitative Effects (Operation and Effect Indicators)

As illustrated in Figure 1, this project had a mechanism where the funds provided as Japanese ODA loan were sub-loaned to Participating Financial Institutions (hereinafter

⁴ A bee farming business and a soap manufacturing with waste oil are the examples. The following project introduced a guideline on EPL and these sub-projects would not be approved as EPL projects.

⁵ Sub-rating for Effectiveness is to be put with consideration of Impact.

referred to as PFI) by the Counterpart Steering Committee (hereinafter referred to as CSC) of the Government of Mongolia, which are then provided to SMEs, the end users, in the form of long-term funds. In conjunction with JICA's technical cooperation project, 'The Mongolia-Japan Center for Human Resources Development Project'⁶, this project was designed to assist SMEs and PFIs with the development of capacity in business planning and long-term funding assessment through consulting services.

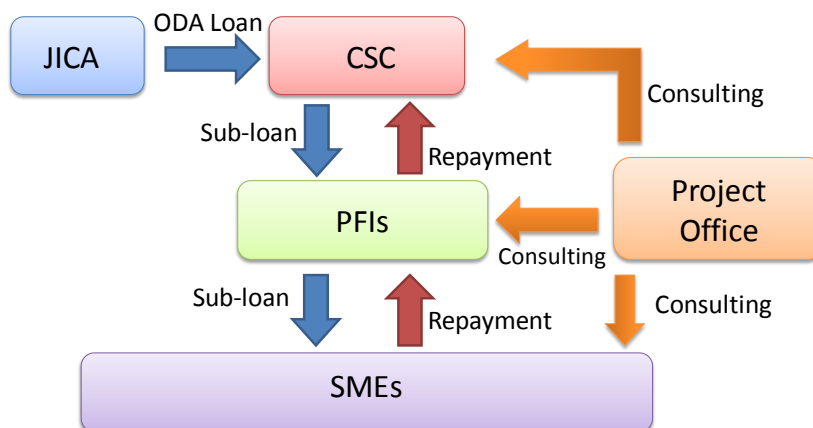


Figure 1: Funding Scheme of the Project

At the time of project appraisal, indicators related to sub-loans⁷ and performance of SMEs that received sub-loans were expected to improve as project effects, as shown in Table 2. As the year to measure the achievement level of target figures of each indicator had been set to be two years after the completion of the project, the comparison was planned to be made against the actual figures of 2011 as the project was completed at the end of 2009. However, there was no mechanism in place in this project that the executing agency would continue to collect and develop the indicator figures after the end of the project period. Therefore, many indicators show the figures of the end of 2009, when the funding ended through this project, as the actual figures. Concretely, the details are shown in Table 2.

⁶ A technical cooperation project that established business courses in Mongolia, where the economy was in transition to market economy, to support the fosterage of Mongolian entrepreneurs, to develop local Japanese language teachers and improve their teaching skills by running Japanese courses.

⁷ In this report, 'Sub-project' refers to the projects of each firm that received funds in this project, and 'Sub-loan' refers to the funding to those sub-projects.

Table 2: Achievement Level of Project Effect Indicators

Indicator	Target (two years after project completion (expected to be the end of 2011))	Actual (end of 2009)
Non-performing sub-loan cases under the project (%)	10% or less	1.5%
Non-performing sub-loan amount under the project (%)	10% or less	3.16%
Number of seminars for PFIs and SMEs	50 times and over	13 times (for PFIs)
Sales increase by SMEs under the project (%)	20% and over	147.5%
Operational profits increase by SMEs under the project (%)	10% and over	126.8%
Employment additionally created under the project (%)	10% and over	156.3%
Increase of credit to SMEs (%)	10% and over	8.57%
Percentage of long-term credit (more than 1 year) in total credit to private enterprises	40% and over	78.1%*
CO ₂ emission amount under the project (tons/year)	Decrease, compared to the time of sub-loan approval	850 tons/year
NO _x emission amount under the project (tons/year)	Decrease, compared to the time of sub-loan approval	116.4 tons/year
SO _x emission amount under the project (tons/year)	Decrease, compared to the time of sub-loan approval	204.0 tons/year
Dust emission amount under the project (tons/year)	Decrease, compared to the time of sub-loan approval	640 tons/year
Amount of resources recycled under the project (tons/year)	Increase, compared to the time of sub-loan approval	Coal waste: 92 tons/year Vegetable oil: 117 tons/year Industrial oil: 260 tons/year
BOD amount (tons/year)	Decrease, compared to the time of sub-loan approval	Decreased by 1,081.6 tons/year
COD amount (tons/year)	Decrease, compared to the time of sub-loan approval	Decreased by 8,135.5 tons/year

Source: Data provided by Executing Agency, Bank of Mongolia

Note: Actual values of long-term credit ratio are for 2011

The above data on financing to SMEs were collected by the consultant team by the end of 2009 from 125 SMEs financed during the project period and from a total of eight PFIs related to the project. After 2010, each PFI has been checking the repayment part only and it was not possible to track most data related to the indicators. However, regarding the repayment status of the 125 firms funded with sub-loans by 2009, the rates of non-performing sub-loan cases and the amounts were 4.0% and 0.96% respectively in 2013, according to the reports from each PFI, indicating that target figures have continuously been achieved. The rate of increase of credit to SMEs was 8.57% as of the end of 2009, already reaching over 80% of the target while not achieving the target. Also, while it cannot be confined as the direct effects, it can be

considered from the data that a long-term funding environment has been steadily developed with the implementation of this project, as shown in the percentage of long-term credit (more than one year) in Mongolia's financial market reaching almost twice the target figures in 2011.

With regard to the changes in the performances of financed SMEs, it was confirmed that sales, operational profits and employment had all exceeded the target figures substantially by the end of 2009, and a beneficiary survey⁸ also found that 93% of the SMEs replied that their businesses expanded/improved with the sub-loans in this project.

On the other hand, it had been difficult to confirm what kinds of project effects were generated in terms of environment-related indicators as no data collection was conducted during the project period. In September 2010, after the project completion, CSC, the executing agency, commissioned to an NGO an interview survey with the borrower firms to understand and estimate environmental effects. The results are as shown in Table 2, but the project effects could not be analyzed as the base figures had not been set at the time of sub-loan approvals and it was difficult to judge if the reductions were actually observed for some of the indicators. However, according to the above survey, recycling of wastes and reductions of BOD and COD discharge were confirmed, demonstrating some effects of sub-loans.

In respect of a reduction in air pollution emphasized as an environmental protection component, changes could not be confirmed as there was no annual data at the same observation point. As there were only seven EPLs for air pollution improvement, it is considered that there was limited macro-level effect to the improvement of air pollution in Ulaanbaatar.

⁸ Out of all the 125 firms financed in this project during the project period, 104 firms that were traceable and cooperative to this survey were interviewed either by actual visits or phone calls. Main questions were on the loan appraisal, business development, repayment status, contribution of this project, environmental effects, and so on.

[BOX 1: A case of two-step loan on SME development ‘Cashmere knit clothes production’]

- Business development with approximately 10 staff members after establishment in 1992
- Loan borrowed in 2008 to purchase one automatic sewing machine and expand the building
- Long-term funding in most favorable condition out of 12 loans received over the previous 16 years. An eligibility to receive consulting services was also attractive.

<Business growth after funding>

Employees: Increased from approximately 30 to 60

Production capacity: Increased from approximately 100 to 1,000 varieties. The production volume also increased from 1,000 clothes per year to 100,000, enabling some of them to be exported.

Equipment: Increased automatic sewing machines to eight. The factory was expanded and the company’s own building was built in 2010.



Automatic sewing machine purchased

Introduction of new technology realized increases in both employment and sales

[BOX 2: A case of two-step loan on environmental protection ‘Boiler improvement project’]

- After the establishment in 2000, heating was provided to junior high schools and kindergartens at three locations on the outskirts of Ulaanbaatar. It was very inefficient as the boilers made of bricks consumed a significant amount of fuel.
- The loan was received in 2008, and new and more fuel-efficient boilers were purchased for installation at these three locations.
- Before the loan was provided, the firm had a five-year management contract with the government. When the boilers needed to be repaired, privatization was allowed if the equipment was self-invested, which led to the decision to borrow funds.

<Reduction in emissions after funding (per 1m³)>

NO_x (NO₂): reduced by 43.6%

SO_x (SO₂): reduced by 60.9%

Dust (ash): reduced by 21.0%

Also, annual coal consumption was reduced by 67.8%

Replacement of boilers realized substantial reduction of the emission of air pollutants and fuel costs



Boilers purchased

3.2.2 Qualitative Effects

3.2.2.1 Capacity Development of PFIs and SMEs

At the time of project appraisal, qualitative effects were also expected through project implementation, in addition to the provision of long-term funds, such as that loan appraisal capacities in the banking sector would improve, and that human resources in private firms would be improved by improving management, financial, and accounting capacities of SMEs. In order to achieve the capacity development, it was planned as the main activities that the consulting team would hold seminars for PFIs to support them to utilize this project and to transfer technical skills on long-term loan appraisal and that seminars for SMEs at the Mongolia-Japan Center would be utilized in collaboration with the JICA technical cooperation project.

As indicated in Table 2, seminars were planned to be held over 50 times during the project period to develop capacities, but the seminars were actually held only 13 times. While the number of seminars was much less than planned, it was judged by the executing agency that it would be more effective to instruct PFIs individually according to each circumstance rather than guiding them in the form of multiple seminars, which led to the decrease in the number of seminars on long-term loan appraisal. On the other hand, some PFIs expressed their views that it was more desirable to hold the seminars more frequently as the officers get internally transferred on a regular basis. Concerning the seminar contents, the seminars held in the capital and other regions were highly regarded by PFIs regarding the analysis necessary for long-term funding (loan appraisal, due diligence, etc.) which the bankers had not been so familiar with.

While this project did not support SMEs directly by holding ‘seminars’ to build their management and financial capacities, some business courses such as a financial management course had been implemented at the Mongolia-Japan Center since 2002, which shows that these two projects were collaborating. The percentage of firms that participated in these courses was 36% of the above-stated respondents to the beneficiary survey. Although there were only a few cases shown to demonstrate how these courses led to their capacity development in these areas, such as the improvements in production processes, it can be assumed that they made certain contributions. As for the consulting services in this project, it was observed in the interviews with the supported firms that they generally appreciated the assistance extended to them by the consultant team in preparing business plans when the SMEs applied for loan appraisals and negotiated with banks on lending conditions.

3.2.2.2 Funding Diversification

An output of this project was to supply long-term funding to SMEs. In the ex-post evaluation survey, a beneficiary survey was conducted on the SMEs financed about the use of long-term and low-interest funding to see the effects of this project. The following Figure 2 shows the responses.

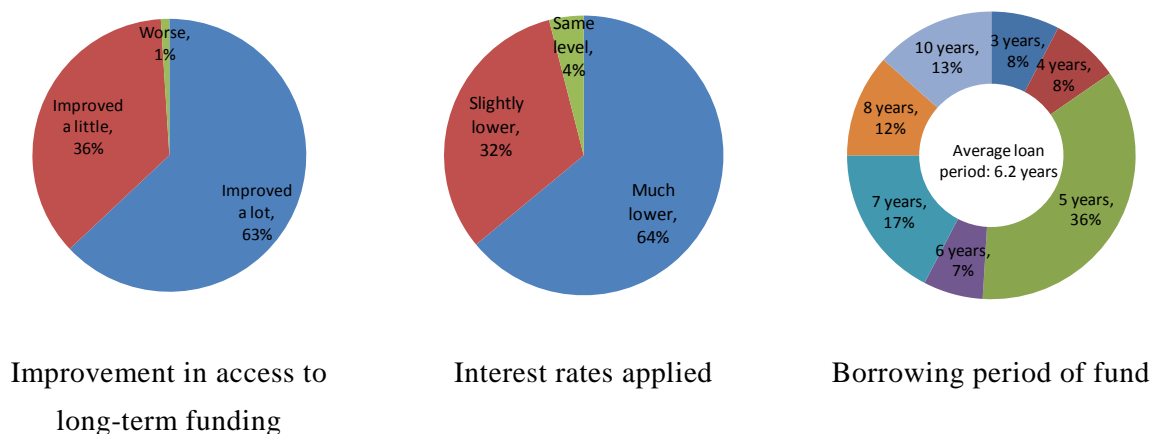


Figure 2: Evaluation of Funding Diversification by SMEs / Borrowing Period

In Mongolia where low-interest and long-term funding was limited, many voices were heard that this project offered very favorable conditions to facilitate fund procurement by eligible SMEs. In the beneficiary survey, almost all the firms replied that the access to long-term funding improved, including 63% of them stating that it ‘Improved a lot’. It demonstrates that this project was a valuable source of long-term funding for the eligible SMEs that had been faced with a problem in securing long-term funding. It also became clear that 96% of the eligible SMEs were able to borrow at a level lower than usual interest rates. The actual borrowing period was 6.2 years on average, with 84% of the total firms borrowing for over five years. It can be said with these results that this project diversified borrowing patterns and improved the fund procurement environment for eligible SMEs.

3.3 Impact

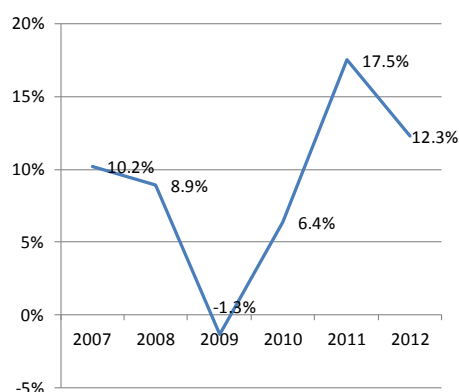
3.3.1 Intended Impacts

In this project, the impacts were expected to be ‘sustainable growth and poverty reduction through employment creation and environmental protection in Mongolia’ as a result of private sector development and the reduction of environmental contaminants emissions, whose effects were verified in ‘Effectiveness’. To achieve these impacts, the following points were emphasized by the executing agency in assessing the borrowers

in this project.

1. Impact on employment
2. Whether the sub-project would not cause negative environmental impact
3. Whether the sub-projects would lead to import substitution
4. Whether new technologies are likely to be introduced
5. Appropriateness of bank's loan appraisal

It is difficult to measure the macro-level effects of this project due to the limitation of contributions as a single project since this project supplied long-term funds to only 0.35% of the country's SMEs (as of the end of 2009). However, the assessment criteria of the executing agency had a focus on employment increase, promotion of import substitution and introduction of new technologies, showing that the funding to sub-projects with high potential to generate positive impacts to the economy were highly valued.



Source: Asian Development Bank
Figure 3: GDP Growth Rate in Mongolia

Figure 3 shows Mongolia's annual real GDP growth rates, indicating high growth rates except for the period when the economy was temporarily hit by an influence of the Lehman Brothers crisis. Per capita GDP increased from 1,905 dollars in 2007 to over 3,000 dollars in 2010, then further to 4,909 dollars in 2012. Simultaneously, the poverty rate (WB data), though they are only the data after the project completion, is showing a decline from 38.7% in 2010 to 33.7% in 2011, then to 27.4% in 2012, demonstrating Mongolia's economic growth and poverty reduction. It is estimated that the activities of the SMEs under this project was in part responsible. In fact, 97 out of 104 firms (93%) financed in this project and were subject to the beneficiary survey responded that the long-term funds brought about business expansion and positive changes. It is considered that the funding in this project made great contributions to SME development.

3.3.2 Other Impacts

3.3.2.1 Impacts on Natural Environment

At the time of project appraisal, it was expected that the environment would

improve through improvements in air pollution in Ulaanbaatar and that energy conservation and recycling would be promoted. In light of the loan amount and business plans anticipated, no serious impacts on environment by the sub-projects were foreseen. Therefore, no large-scaled environmental impact assessment was planned for each sub-project, but the environmental and social impacts of sub-projects were planned to be checked at regular assessment meetings of the executing agency. It was judged that adequate checks would be conducted in this project as the executing agency and PFIs had experienced similar environmental and social impact checks in other donors' two-step-loan projects prior to the implementation of this project.

After this project actually started, it was required during the sub-loan appraisal to confirm the implementation of environmental impact assessment on all projects eligible for funding, and the funding condition was that the projects met all the conditions and would be judged not having any negative impacts. However, the environmental impact check was conducted only up to this process and, as stated above, no monitoring of environmental and social consideration was conducted during the project implementation, which was after the supply of loans. Neither the executing agency nor each PFI collected information to measure the project effects. Therefore, it is not clear how much positive impact the sub-loans generated. However, according to the executing agency, there were no sub-projects that affected the environment negatively and there was actually no reporting of such cases.

3.3.2.2 Land Acquisition and Resettlement

Out of 125 sub-loans in this project, no projects were accompanied by resident resettlement or direct land acquisition. While this project enabled an acquisition of real estate necessary to implement sub-loan projects as an area where the borrowed funds could be used, it was confined to the cases where, for example, additional land purchases were needed due to construction or expansions of factories, and there were no cases requiring large-scale resident resettlement.

As an entire project, regarding the changes of expected quantitative indicators, substantial improvements were observed in the indicators related to SME development. However, it also became clear that the data was only partially obtained in the ex-post evaluation as no data had been developed since the end of this project and no monitoring mechanism had been established for environment-related indicators. With regard to qualitative effects and impacts, while this project contributed positively as a whole, the overall environmental improvement by sub-projects can be said to have been

limited since not all the projects were adequately selected due to ambiguities of sub-project appraisal criteria for environmental protection, and no monitoring activities of indicators were conducted as the environment-related indicators had not been set at the time of appraisals.

In light of the above, this project has somewhat achieved its objectives. Therefore, its effectiveness and impact is fair.

3.4 Efficiency (Rating:③)

3.4.1 Project Outputs

3.4.1.1 Two-Step-Loan for SME Development / Environmental Protection

This project was designed to supply funds from the Government of Mongolia to the SMEs through PFIs in the agricultural and industrial areas as well as environmental protection by using Japanese ODA loan as a long-term financing source, and the following conditions were mainly set at the time of appraisal.

- Eligible sectors: Mainly agricultural and industrial areas (excluding real estate, military, and consumer financing businesses) or environmental protection projects
- Eligible firms: Private firms eligible for financing to which preferential corporate tax (15%) can be applied
- Funding period: 3 to 10 years (grace period: 0 to 3 years)
- Sub-loan: for equipment and working capital, 10,000 to 600,000 US dollars per sub-project (either in US dollars or Mongolian tugrik)
- On-lending interest rate (from government to PFI): LIBOR+1% for US dollars, and average deposit rates for Mongolian tugrik
- Sub-loan interest rate (from PFI to SME): Each PFI would decide on its own
- Financing conditions for environmental protection components would be the same as those for SME development components except for the confinement of sub-loans to environmental protection projects

While this project was implemented mostly as planned, changes were made mainly on the following points after the project commenced.

- Use of sub-loan for the real estate necessary to implement sub-projects would become possible, based on the agreement between the Ministry of Finance and PFIs after January 29, 2008 (but not for investment in the real estate businesses.

The use of sub-loan was allowed for an acquisition of real estate associated with project implementation)

- Reduction of preferential corporate tax rates from 15% to 10% as a result of changes in the Corporate Law of 2006

No particular effects of the reduction of preferential corporate tax rate on the implementation of this project were seen. Also, enabling of the use of sub-loans for real estate did not cause any problems either, as described in ‘3.3.2.2 Land Acquisition and Resettlement’.

While each PFI was expected to set its own sub-loan interest rates freely, they were managed by CSC in practice from the viewpoint that it was important to realize funding at interest rates lower than general market rates in this project. The following table shows that the sub-loan interest rates were ‘On-lending rate (LIBOR+1%) + 3.60%’ for US dollars and ‘On-lending rate + 4.00%’ for Mongolian tugrik.

Table 3: On-lending and Sub-loan Interest Rates

(Unit: %)

Period	On-lending Rate (Government to PFI)		Sub-loan Rate (PFI to SME)	
	In USD	In MNT	In USD	In MNT
January to June, 2007	6.40	5.70	10.00	9.70
July to December, 2007	6.38	5.90	9.98	9.90
January to June, 2008	5.83	5.90	9.43	9.90
July to December, 2008	4.11	5.90	7.71	9.90
January to June, 2009	4.11	5.90	7.71	9.90
July to December, 2009	2.11	4.80	5.71	8.80
January to June, 2010	2.11	4.80	5.71	8.80
July to December, 2010	1.75	4.80	5.35	8.80
January to June, 2011	1.46	4.50	5.06	8.50
July to December, 2011	1.40	4.00	5.00	8.00
January to June, 2012	1.80	4.00	5.40	8.00
July to December, 2012	1.70	4.00	5.30	8.00
January to June, 2013	1.51	4.00	5.11	8.00
July to December, 2013	1.40	3.00	5.00	7.00

Source: Data provided by the Executing Agency

Note: USD – U.S. Dollar, MNT – Mongolian Tugrik

The sub-loan rates were treated differently from the original plan, in fact, under the control of the central bank. It became a merit for SMEs, as the interest rates were kept substantially lower than the average lending rates (generally 18-20% at the time of ex-post evaluation). As mentioned above, lower interest rates were highly regarded by the firms that received funding, and it is assumed that there were no issues as a result. For the PFIs, though the margins were smaller than ordinary

lending, they were mostly positive about their participation in this project from a point of view that they could explore new customers and promote the business expansion of SMEs.

3.4.1.2 Consulting Services

The consulting services were included as a component of this project to support the implementation of this project and to support capacity development of PFIs and SMEs. Specifically, it included project management, provision of support on capacity development for the executing agency, PFIs and SMEs, as well as conducting of surveys on the development of long-term finance market in the country. For this purpose, an input of

- Advisor on project management / PFI seminars: 8MM (International consultant)
- Project coordination / management: 39MM (Mongolian consultant)
- Advisor on SME seminars: 27MM (Mongolian consultant)

was planned.

However, the input increased significantly from the original 74MM to a total of 153MM after the commencement of the project to enhance activities on sub-loan processing and management as well as capacity development of the executing agency and PFIs (International consultant: 16.8MM, Mongolian consultant: 136.3MM). Particularly, instructions to PFIs on project finance, establishment of the loan administration system and the operational policy of the revolving fund, and support to the executing agency on project implementation were strengthened through additional inputs. The provision of these additional services by the consultants was requested by the Government of Mongolia for the smooth implementation of the project, and a portion exceeding the limit of the L/A amount was additionally implemented with the cost borne by the Mongolian government. These additional services are considered to have led to the smooth implementation of advising services to the financed firms after the ending of the loans from the project's primary loan account, and the smooth formulation of the operational policy of the revolving fund. PFIs and SMEs highly appreciated the support by the consultant team and it can be said that the additional inputs led to appropriate effects. However, as stated in 'Sustainability' there was an aspect where these inputs did not necessarily lead to the development of the executing agency's institutional capacities.

3.4.2 Project Inputs

3.4.2.1 Project Cost

The planned project cost was 3,141 million yen (foreign currency portion: 2,981

million yen, local currency portion: 160 million yen), out of which Japanese ODA loan was 2,981 million yen, the entire amount of the foreign currency portion.

Table 4 summarizes the original and actual costs in a comparable format.

Table 4: Comparison of Original and Actual Project Costs

(Unit: million yen)

Item	Original		Actual	
	Total	ODA Loan	Total	ODA Loan
SME development loan	2,297	2,297	2,297	2,297
Environmental protection loan	573	573	573	573
Consulting services	90	90	120	98
Contingency	21	21	3	3
General administration cost	160	0	0	0
TOTAL	3,141	2,981	2,993	2,971

Source: Project Completion Report and data provided by JICA

As stated later, the executing agency was not a permanent establishment but a meeting body consisting of representatives from agencies concerned in the Government of Mongolia. No special budget appropriation was made to the Ministry of Finance, which was taking a role as the secretariat, and the role was taken as part of their routine work items. Therefore, no administration cost was budgeted. On the other hand, additional costs associated with the increase in consulting services as stated above were covered by utilizing the contingency and expenditure by the Mongolian government. As a result, the total project cost was within the plan at 2,993 million yen (96% of the plan) and the cost of this project (Japanese ODA loan) was also mostly as planned (100% of the plan), as shown in Table 4.

3.4.2.2 Project Period

The original and actual project periods of this project are as shown in Table 5.

Table 5: Comparison of Original and Actual Project Periods

	Original	Actual	Comparison with the plan
Entire period	April, 2006 – December 2009	April, 2006 – January, 2011	100%
Breakdown	April – October, 2006: Selection of consultants October, 2006 – December 2009: Two-step-loan and consulting services	SME development loan: January, 2007 – April, 2009 Environmental protection loan: February, 2007 – December, 2009 Consulting Services: October, 2006 – January, 2011	

While the first sub-loan in this project was executed in January 2007, a selection process of the sub-projects for funding by PFIs had started by the end of 2006, and it is considered that the project was started almost as planned.

Lending through the two-step-loan in this project was completed by the end of 2009, as originally planned⁹. On the other hand, consulting services continued until January 2011, as the items shown above in ‘3.4.1.2 Consulting Services’ were added with the request for additional project assistance by the Government of Mongolia which would bear the project cost exceeding the L/A amount. Although this addition was pointed out in ‘Relevance’ as having a partial problem in terms of the appropriateness of project approach, the periods required for the initially planned items and the implementation of additional items were separately regarded in the judgment of the project period. This is because the advisory services to the funded firms, and the formulation and administration of revolving fund operational policy after funding from the primary loan account ended was the addition of outputs needed to achieve the objective of this project.

Therefore, it can be judged that the actual project period for the outputs in the original plan was 44 months, as planned, and that the actual period for the extended project period for added work items was also within the planned period of 13 months (100% of the plan).

In light of the above, both the project cost and project period were mostly as planned. Therefore, the efficiency of the project is high.

3.5 Sustainability (Rating:②)

3.5.1 Institutional Aspects of Operation and Maintenance

The implementing structure of this project was not that the existing government organization would execute all the processes, but CSC, consisting of the Ministry of Finance, the Ministry of Industry and Trade, the Ministry of Food and Agriculture, the Ministry of Nature and Environment, and the Bank of Mongolia (central bank), was planned to play a role as the executing agency with a secretariat located in the Ministry of Finance. It was planned that the executing agency would select PFIs, sign on-lending contracts with PFIs, approve sub-loan applications, instruct the Bank of Mongolia to on-lend, manage this project’s primary loan account and the revolving fund, and monitor the progress of sub-projects. It was also required to report quarterly to JICA

⁹ At the time of appraisal, the completion of this project was defined as the completion of disbursement of two-step-loan.

the loan amount, loan numbers, sector classification, balance of each account and its operational status and delays in repayment by end users and PFIs.

At the time of ex-post evaluation, CSC was still functioning as the executing agency since a subsequent project was being implemented, and its role was unchanged. However, there were some changes in the member organizations and CSC was a meeting body consisting of eight representatives from the Ministry of Finance, the Ministry of Food, Agriculture and Light Industry, the Ministry of Nature, Environment and Tourism, the Bank of Mongolia (central bank), and the Chamber of Commerce and Industry, with the Ministry of Finance holding a secretariat role. As a result of government structural reform in 2012 in Mongolia, the industrial area of the Ministry of Industry and Trade came under the jurisdiction of the Ministry of Industry and Agriculture and the trade area under the Ministry of Foreign Affairs. CSC meetings were held once or twice a month and the project was implemented as planned. However, CSC was a meeting body without an operation team within the Ministry of Finance, the secretariat, and all the routine work was undertaken by the consultants of this project. This system has been maintained in the subsequent project. As this two-step-loan project will eventually come to an end, the consultant team will be dissolved then. But it has not been decided what kind of structure will be established to monitor the progress of sub-loan, conduct the assessment of the process after the second lending, and administer the revolving fund, which poses concerns in conjunction with the 'Technical Aspect of Operation and Maintenance'. According to a CSC member, various options were being considered regarding future organizational structure, such as establishing a special fund based on the revolving fund, incorporating this project's revolving fund into a to-be-established industrial development fund, or incorporating it into the existing SME Development Fund, but no final decisions have been made. As there was a case where a lack of establishment of a management unit of the revolving fund after the project completion caused a problem in terms of the sustainability of project outcomes in the project of a different donor, a future administration and implementation system was planned to be discussed more extensively in policy meetings soon, in anticipation of the end of the subsequent project.

It is considered to have been appropriate that CSC was established with representatives from the ministries and agencies concerned to make decisions on providing loans to the projects consistent with the policy directions on SME development and environmental protection in this project, and that there were inputs of consulting services to support the operations of the executing agency which was not well experienced in loan appraisal procedures to implement the project smoothly. However, as no section to perform the functions as an executing agency was

sufficiently established at the Ministry of Finance which was playing a role as the secretariat, and the staff members were not adequately allocated, no structure to manage the revolving fund independently was established even at the time of ex-post evaluation. It was desirable to have technical transfer from the consultants on day-to-day operations and have a section to hold CSC meetings, guide and coordinate PFIs and SMEs, and manage the revolving fund in a self-sustaining way after the completion of the project.

As for PFIs, a total of five banks: Trade and Development Bank, Khan Bank, Zoos Bank, Capitron Bank and Xac Bank, were initially selected as they had experience as PFIs in the two-step-loan projects by other donors such as WB and KfW, and they were judged to have been sufficient in terms of soundness, quality of management, growth, and corporate finance experiences. Later on, Golomt Bank was added before the commencement of this project, and Anod Bank as a PFI in January 2008. However, Anod Bank went into bankruptcy in November, 2008 due to an influence of the Lehman Brothers crisis which occurred during the project period. As Zoos Bank followed and went into bankruptcy in November 2009, the government established a state-owned State Bank and transferred all the sub-projects of Zoos Bank to State Bank. At the time of bankruptcies of these two banks, appropriate measures were taken as there were no particular troubles caused since the sub-loans were promptly transferred to other banks or to the newly-established State Bank. The implementing structures of this project differed from bank to bank, such as assigning dedicated staff members or operating within the existing organizational structure as one of the loans. It was commonly seen that the final loan decisions were made by the loan committees of the banks.

3.5.2 Technical Aspects of Operation and Maintenance

At the time of appraisal, it was judged that CSC, the executing agency, had experience in implementing other donors' two-step-loan projects in the past, and had basic structure and capacities necessary to implement this project. However, technical transfer was needed from the consultants to be employed in this project as the executing agency did not have sufficient resources and know-how on preparing manuals for PFIs and pamphlets for SMEs, capacities of day-to-day monitoring of this project and implementing guidance for PFIs, and seminars for SMEs for their capacity development. Consulting services were then incorporated as part of the project.

With regard to actual day-to-day operations, it became clear in the ex-post evaluation study that various procedures were consistently undertaken by the consultants and CSC had not been involved in the operations though it regularly held meetings and made decisions. Also, officers in charge in the Ministry of Finance have been replaced every

few years due to transfers and it was difficult to say that know-how was being accumulated at an institutional level. In other words, while CSC experienced various two-step-loan projects, they have limited actual experience, compared to what the consultants of this project had. One of the big factors for the high appreciation of PFIs and SMEs toward this project was the meticulous responses by the consultant team, but there is concern whether various operations, including the management and operation of the revolving fund, will be implemented without delay after the consultant team gets dissolved when the subsequent project is completed. It is inferred that an organizational problem of not having a permanent section and also the shortage of actual operational experiences could be an inhibiting concern for the sustainability of techniques underpinning smooth operations of the project.

In respect to the appraisal and funding capacities of PFIs, it was often heard in the interviews with each PFI that the knowledge acquired in the seminars in this project was utilized in loan appraisals and there was even a case where those who attended the project seminar organized seminars to other officers within the bank. Between the head office and branches, a decision-making authority was clearly defined according to the size of the funding, and there were no particular issues identified. Also, manuals and pamphlets prepared in this project were utilized timely at the times of appraisals, promotions, and marketing activities. The subsequent project was also making effort in disseminating the information by making pamphlets specifically for environmental protection projects, based on the lessons learned from this project.

3.5.3 Financial Aspects of Operation and Maintenance

As the CSC, the executing agency, was positioned as an internal organization within the Mongolian government at the time of project appraisal, it was to receive budget allocation from the government for its administration costs needed for project implementation. In fact, the Ministry of Finance as the secretariat and the CSC members were managing CSC as part of their routine job within the government. As the majority of operations were implemented by consultants, there were no dedicated staff or committee members, and no budget specific to this project has been allocated. In other words, there is no financial concern as it is part of the government finance.

With regard to PFIs, Table 6 shows the 2012 management indicators of the four banks which were expected as the PFI at the time of planning of this project.

Table 6: Management Indicators for Each Participating Financial Institution (2012)

	Total asset	Loan balance	Capital adequacy ratio	Non-performing loan ratio	Rate of return on assets	Number of branches
Trade and Development Bank	2,700	1,533	15.1%	1.4%	2.3%	22
Khan Bank	2,796	1,758	16.9%	1.2%	3.1%	512
Capitron Bank	204	119	17.1%	11.5%	0.6%	29
Xac Bank	1,077	623	13.0%	1.3%	1.7%	76

Source: Data provided by each bank (2012)

Note: Unit for total asset and loan balance is billion tugrik. The data of Capitron Bank are for 2013.

The PFIs with the overviews obtained were all expanding their scope, and the non-performing loan ratio improved to the level of no-concern, except Capitron Bank¹⁰. The capital adequacy ratio and the rate of return on assets varied, but no particular issues could be seen as a whole, as shown in an example of the capital adequacy ratios of all banks meeting the regulated ratio of 12%.

As already stated, two banks went into bankruptcy during the implementation of this project. In the subsequent project, four assessment steps were introduced, such as judging the satisfaction of capital adequacy ratio, giving rating for CSC approval, etc., making the assessment criteria harsher on PFI's soundness. As a result, Capitron Bank was excluded from the PFI, and Capital Bank and Ulaanbaatar City Bank were newly selected.

3.5.4 Current Status of Operation and Maintenance

In this project, it was planned that a margin between the Japanese ODA loan rate and on-lending rate would be administered with the principal in the revolving fund of this project, and will be lent on again with the same objectives and rates as this project and also become the fund for the repayment of the Japanese ODA loan. It has been managed in this way in practice. In September 2009, an operational policy of the revolving fund was formulated and another 125 sub-loans were provided by September 2013 based on the policy.

Repayment from PFIs to the executing agency started in June 2007. The revolving fund was divided into US dollar and Mongolian tugrik accounts according to the currency used for repayment and each of them is accumulated in the Category A (for SME development projects) and the Category B (for environmental protection projects). Table 7 shows the status of repayment and lending of the revolving fund between 2011

¹⁰ According to Capitron Bank, they were affected significantly by much of the loans for construction activities becoming non-performing loans after the Lehman crisis. The non-performing loan ratio of the Bank was 6.8% in 2008, but increased to 22.8% in 2010. It was 18.2% in 2012 but is recovering due to the disposing of non-performing loans and the increase in finance receivable. The rate came down to 11.5% in 2013.

and 2013, indicating that repayment and relending have been steadily implemented every year.

Table 7: Operational Status of the Revolving Fund (2011-2013)

(Unit: thousand USD, million MNT)

		SME Development Loan		Environmental Protection Loan	
		USD	MNT	USD	MNT
2011	Starting balance	276.7	693.5	99.7	118.3
	Repayment from PFIs	1,169.0	3,872.9	190.6	378.9
	On-lending to PFIs	1,312.4	3,979.0	0.0	38.0
	Ending balance	133.3	587.4	290.3	459.2
2012	Starting balance	133.3	587.4	290.3	459.2
	Repayment from PFIs	1,743.6	5,841.3	300.4	535.8
	On-lending to PFIs	551.4	3,436.0	0.0	0.0
	Ending balance	1,325.6	2,992.7	590.7	995.0
2013	Starting balance	1,325.6	2,992.7	590.7	995.0
	Repayment from PFIs	1,434.9	6,704.6	319.5	732.0
	On-lending to PFIs	2,177.7	8,445.0	732.8	1,408.0
	Ending balance	582.7	1,252.3	177.4	319.0

Source: Data provided by the executing agency

Note 1: USD – US dollars, MNT – Mongolian Tugrik

Note 2: As the figures are rounded to one decimal place, they may not correspond to the total value.

Table 8 shows the accumulated amount of repayment and a total relending amount from the revolving fund up to September 2013. As the revolving fund was built up steadily, approximately 1.9 billion yen (converted to Japanese yen) was funded again. The maximum amount for each sub-loan gradually increased to 400,000 dollars from its initial 200,000 dollars, making it more possible to respond to larger funding needs.

Table 8: Accumulated Repayment and Lending Amount from the Revolving Fund

(Unit: million USD, billion MNT)

	SME Development Loan		Environmental Protection Loan	
	USD	MNT	USD	MNT
Accumulated Repayment from PFIs	6.0	20.9	1.0	1.8
Accumulated On-lending to PFIs	5.6	20.5	0.9	1.5

Source: Response to the Questionnaire

Note: Accumulated amount as of September 2013, USD – US dollars, MNT – Mongolian tugrik

As mentioned above, smooth implementation of this project was enabled by the consultant team and they were appreciated by PFIs and SMEs. It can be assumed that many of the sub-loan projects are generally growing steadily as the status of repayment into the revolving fund has been positive. On the other hand, executing agency's organizational structure has not been well developed, which poses a concern as to whether the same operational records will be ensured after the consultant team becomes dissolved. Regarding the future structure, the Mongolian government was contemplating the smooth administration of the revolving fund, as described in '3.5.1 Institutional Aspects of Operation and Maintenance'. There were no particular issues concerning the financial aspect and the operational status of the revolving fund.

In light of the above, some problems have been observed in terms of institutional and technical aspects. Therefore, sustainability of the project is fair.

4. Conclusion, Recommendations and Lessons Learned

4.1 Conclusion

This project aimed to achieve sustainable growth and poverty reduction by promoting employment creation and environmental conservation in Mongolia through the provision of long-term funding to private small and medium-sized enterprises. While this project was consistent with the development plan and needs of Mongolia as well as Japan's ODA policy, some issues were identified in terms of the implementation approach of environmental protection measures and the plan of consulting services. Therefore, the relevance of the project was fair. With regard to project effectiveness, significant improvements were observed on the indicators for small and medium enterprise development, though the data after the project completion was not sufficiently collected. On the other hand, the effectiveness of environmental improvement was limited as a whole as it cannot be said that sufficient data for environmental protection-related

indicators was captured, and definitions of the environmental protection project were ambiguous. In terms of project implementation, the efficiency of the project was high, as the project cost and period were both within the plan. With regard to operation and maintenance, the sustainability was judged to be fair as there were some issues in the institutional and technical aspects, while no issues were identified in the financial aspect and the current status.

In light of the above, this project is evaluated to be partially satisfactory.

4.2 Recommendations

4.2.1 Recommendations to the Executing Agency

4.2.1.1 Necessity to Develop the Structure of the Executing Agency

In the course of project implementation, a structure in which the consultant team always extended various support to PFIs and SMEs was established, which promoted smooth project implementation. On the other hand, there was little involvement of CSC in the operations though CSC was positioned as the executing agency, and the consultant team for the subsequent project was still playing that role at the time of ex-post evaluation. With regard to the smooth implementation of funding operations from the revolving fund after a series of two-step-loan projects become completed, it is considered to be urgent to examine the structure, including the method of accumulating experience, to continue funding SME development and environmental protection projects without delay.

4.2.1.2 Data Collection to Measure Project Effects

In this project, no data collection regarding the effect indicators from SMEs has been conducted after the end of the project period. It is important for the executing agency itself to continue measuring the effects since it is beneficial to measure project effects all the time to capture medium- to long-term influences and to verify those post-project effects when considering and formulating similar plans.

4.2.2 Recommendations to JICA

As stated above, it became clear that the Government of Mongolia has not determined the policy on the future operational structure of the revolving fund. It will be important to have discussions with the Mongolian ministries and agencies concerned to promote the utilization of the revolving fund and monitor the formulation process of the policy on the operational structure, in line with the original objective that this project, including the subsequent project, will contribute to sustainable growth and poverty reduction by supplying long-term funds to SMEs at lower interest rates.

4.3 Lessons Learned

4.3.1 Necessity to Formulate Detailed Selection Criteria

In this project, no detailed policy was formulated during the planning stage on the selection criteria and monitoring method for the environmental protection component, and it is in part difficult to say that this scheme was sufficiently utilized. It is assumed to have been important to have adequate discussions among the parties concerned during the planning stage and soon after the commencement of the project. Based on the lessons learned from this project, the subsequent project made some improvements by formulating a guideline. When a similar project is planned in the future, it is desirable to thoroughly contemplate the items to be embodied so that the operations that follow will not become ambiguous.

4.3.2 Structural and Capacity Development of the Executing Agency

In implementing this project, CSC, consisting of the government agencies related to SME development, functioned as a decision making body in line with the policy direction, but the majority of practical operations were undertaken by the consultant team. While there were no troubles in terms of smooth implementation of the project, no dedicated staff members were assigned at the executing agency and no improvement in operational capacity was observed, which generated concerns on further emergence of project effects through the smooth operation of the revolving fund. Therefore, when planning a two-step-loan project, it is desired that a structure to sustain the effects even after the project period be established by allocating dedicated staff members at the executing agency right from the beginning of the project and develop the capacities of the executing agency itself through consulting services.

Comparison of the Original and Actual Scope of the Project

Item	Original	Actual
1. Project Outputs	- Sub-loan from each PFI to SMEs: no planned values for SME development or environmental protection components	- Sub-loan from each PFI to SMEs: 103 sub-projects under the SME development component, 22 sub-projects under the environmental protection component: 125 sub-projects in total
2. Project Period	April, 2006 – December, 2009 (44 months)	April, 2006 – January, 2011 (57 months)
3. Project Cost		
Amount paid in Foreign currency	2,981 million yen	2,993 million yen
Amount paid in Local currency	160 million yen (Local currency: 1.684 billion tugrik)	None
Total	3,141 million yen	2,993 million yen
Japanese ODA loan portion	2,981 million yen	2,971 million yen
Exchange rate	1 tugrik = 0.095 yen (as of November, 2005)	1 tugrik = 0.09 yen (Average between April, 2006 and December, 2009)