

Mongolia

Ex-Post Evaluation of Japanese ODA Loan

“Social Sector Support Program (I) (II)”

External Evaluator: Naomi Murayama, OPMAC Corporation

**0. Summary**

The objective of this program (hereinafter referred to as “the Program”) was to establish a mechanism for ensuring and strengthening basic social services for the poor while restraining public expenditures, of which social welfare expenditures had been inefficiently allocated, by targeting the poor as beneficiaries, as well as to address the financial crisis. This objective was consistent with the funding needs and the development needs of Mongolia as well as with Mongolia’s development plan and Japan’s ODA policy. It was also relevant from the point of view of advantage of scale and efficiency of aid that JICA provided Mongolia with budget support together with other donors under the IMF program. The government of Mongolia was proactive in preparing the policy matrix which was compiled of actions to be taken by the Mongolian government. The preparation process of the matrix was appropriate. Therefore, its relevance is high. All the Policy Measures were completed and the verification process and appraisal by JICA were carried out properly. Therefore, effectiveness of the Program is high. As far as impact of the Program is concerned, however, there has not necessarily been as much progress as expected in some reform areas. Furthermore, it is necessary to observe whether or not the desired effects are to be produced amid concerns that the financial situation is deteriorating. Although there is a system for implementing reforms, the severe financial situation has hindered their implementation in all sectors and this has cast a shadow over the effects. Moreover, there are some concerns about the capacity of the Mongolian government for policy implementation; therefore the sustainability of the program effects is fair.

**1. Project Description**



Project Location



Ger Area where many poor people live

## 1.1 Background

### 1.1.1 Background of the Financial Crisis

The Mongolian economy had continued negative growth immediately after changing to a market economy system in 1990 but had continued positive growth from 1994, excepting the years from 2000 to 2001 when it suffered damage from a snow disaster. The treasury budget of Mongolia maintained a surplus due to a rise in the international price of mineral resources and a boom in the agriculture and pasturage sector, especially after 2005.

The government of Mongolia introduced a windfall profit tax on copper and gold in 2006. Through this, revenue widely increased. In response, the government conducted pro-cyclical fiscal management such as increases in wages for public sector workers and an expansion of the social welfare budget. Intrinsically, the Mongolian economy depended on the mineral resource sector for 30% of its GDP and for 40% of government revenue, and was susceptible to the international market. In 2008, when the financial crisis occurred, the international demand for copper, one of the major exports of Mongolia, dropped and its price rapidly declined. The current account and treasury budget dramatically deteriorated. Foreign currency reserves were around 514 million USD as of March 2009 and were valued at about half of that of 2007 (equivalent to three months' imports). The state of the national finances in the first half of fiscal year 2009 resulted in a budget deficit of over 15% of GDP due to a decrease in tax revenue and the economic recession.

Under these circumstances, the government of Mongolia requested assistance from the International Monetary Fund (hereinafter referred to as the "IMF") and was engaged in consultation with the IMF from late January, 2009.

### 1.1.2 Outline of the International Aid Framework

The IMF has an assistance scheme to extend loans based on a Stand-by Arrangement (hereinafter referred to as SBA) to a country that faces difficulties in the short-term international balance of payments. In order to receive assistance based on an SBA, a country has to meet certain requirements. The parliament of Mongolia approved a supplementary budget for fiscal reconstruction based on an agreement with the IMF in March 2009. This supplementary budget stipulated that the deficit would be kept within about 5.4% of GDP by a sharp reduction in current expenditure and investment expenditure and with the precondition that the deficit be maintained within the 6% of GDP requested by the IMF. In response to this, the IMF decided to extend a loan based on an SBA of about 229 million USD for 18 months. In March 2009, the government of Mongolia jointly hosted a donors' conference with the World Bank. At this conference, the government of Mongolia declared that they would address the issues of decreasing the deficit, restoring the stability of the financial system, revising the social welfare system for decreasing the fiscal burden, and ensuring the mid-term fiscal stability. At the same time, budget support was requested of

donors. In response to this, the World Bank, the Asian Development Bank (hereinafter referred to as “ADB”) and Japan expressed budget support.

The government of Mongolia discussed actions to be taken by the government with donors in four sectors, namely fiscal policy and management, social protection, mineral resources and the financial sector. The results of these discussions were compiled into policy matrixes. The IMF and the World Bank compiled a policy matrix on fiscal policy and the management and financial sector and ADB played a central role in compiling a policy matrix on social protection. JICA decided to implement the “Social Sectors Support Program (hereinafter referred to as “SSSP”)” aiming at supporting reforms to improve essential social services for the poor and to ensure social sector expenditure in social protection of the above four sectors so that the negative impact on the poor through the financial crisis might be reduced by co-financing with ADB.

Although the Program objective is to support reforms in the social protection sector as mentioned above, an ODA loan has not been extended to a specific sector or a specific project but is extended to the general budget in order to address the financial crisis in Mongolia. In this sense, the primary purpose of the Program is to avoid financial collapse.

### 1.1.3 Policy Matrix

#### 1.1.3.1 Outline of Policy Matrix

The policy matrixes into which actions to be taken by the government of Mongolia were compiled were shared between the government of Mongolia and international donors. The policy matrix on social protection was jointly prepared with the government of Mongolia, ADB and JICA. The Mongolian government’s “macro economy stabilization plan” in line with assistance from the IMF based on SBA (hereinafter referred to as “the IMF program”) was set as a condition common to all the policy matrixes to be prepared for each of the four sectors and called the “general condition”. Moreover, the policy matrix for social protection set policy reforms for each sector (social welfare, health, education and urban development), and policy measures to be taken for the achievement of the policy reforms (Table 1). The level of achievement of the policy measures needs to be verified in advance of a Japanese ODA loan. Meanwhile, JICA took a leading role in preparing the policy matrix on education and urban development, areas in which JICA has continuously supported activities in Mongolia<sup>1</sup>.

---

<sup>1</sup> In the education sector, JICA had supported the “Project for Strengthening Systems for Improving and Disseminating Child-Centered Teaching Methods” (Technical Cooperation Project) from 2006 to 2013. In the urban development sector, JICA had supported “The Study on City Master Plan and Urban Development Program of Ulaanbaatar City” (2007–2009) and “The Project on Capacity Development in the Urban Development Sector in Mongolia” (Technical Cooperation Project) from 2010 to 2013. Furthermore, Japan serves as co-chair of a working group on the education sector with ADB and co-chair of a working group on urban development with Germany in local donors’ conferences and thematic working groups that are frequently held with major donors and international organizations in Mongolia, and thus plays a central role in these two sectors.

In social welfare, on the basis of financial stringency, the Program aims to consolidate more than 60 social welfare programs and to target the beneficiaries of health insurance by putting an urgently higher priority on the vulnerable, rather than the conventional beneficiaries of social welfare programs. It was planned that proxy means testing (hereinafter referred to as “PMT”)<sup>2</sup> which ADB had supported in the Food and Nutrition Social Welfare Program and Project would be utilized for targeting beneficiaries. It was further planned that this would be expanded into several sectors including health and education.

As for the health component, in light of the situation where health expenditure accounted for 10% of total government expenditure in 2008, the Program aimed to establish an Emergency Mechanism to ensure supply of essential vaccines, medicines and other medical supplies in case of acute shortages, to expand the coverage of the fortification of household micronutrients and to reduce health care out-of-pocket expenses for the poor through a medicard<sup>3</sup> program for the poor by narrowing down beneficiaries.

As far as the education component is concerned, the Program aimed to minimize the negative impact of the financial crisis, especially for the poor, on factors to ensure the quality of education such as textbooks, the evaluation system for new teaching methods and the in-service teachers’ training system. The reforms of the evaluation system for new teaching methods and the in-service teachers’ training system are related to an on-going technical cooperation project, “Project for Strengthening Systems for Improving and Disseminating Child-Centered Teaching Methods”.

The Program component for urban development was formed on the basis of a development study, “The Study on the City Master Plan and Urban Development Program of Ulaanbaatar City” that JICA supported from February 2007 to October 2009. The Ulaanbaatar Master Plan was supposed to be revised based on the study which recommended the development of poor areas called *ger* Areas where about 60% of the total population in Ulaanbaatar City lived. It was therefore planned that the revision of the Ulaanbaatar Master Plan and capacity building for implementing urban development in Ulaanbaatar City would be carried out as part of the Program.

---

<sup>2</sup> It is not a means-test based on income but that estimated from property and family structure.

<sup>3</sup> In Mongolia, there is a subsidy system whereby medical charges can be covered by the government when the insured poor are seen in primary healthcare. However, in actual fact patients need to pay for the costs of prescriptions and medical checks and this is a burden for the poor. Therefore, this component aims to reduce the burden of the poor whether they are insured or uninsured by distributing the medicard to the targeted poor.

Table 1: Policy Matrix (Social Protection)

Sector	Policy reform area	Phase 1 Policy measures	Phase 2 Policy measures
General Condition	Successful macroeconomic stabilization program	The Government has successfully implemented its macroeconomic stabilization program.	The Government has successfully implemented its macroeconomic stabilization program.
Social Welfare	Social welfare reform to improve efficiency and protect the poor through (i) improvement in targeting (through proxy means testing); (ii) consolidation of social welfare programs, including the Child Money Program; and (iii) achievement of fiscal sustainability.	The Government, through the Ministry of Social Welfare and Labor (MSWL), has prepared a plan to reform the social welfare system, which improves targeting through proxy means testing and consolidates social welfare programs. The plan will incorporate (i) institutional changes; (ii) a plan of action for implementation, including a transition strategy; (iii) options for addressing the challenges; (iv) stakeholders responsibilities; and (v) funding.	<ul style="list-style-type: none"> <li>The Cabinet has submitted to the Parliament a targeted and consolidated social welfare program.</li> <li>The Parliament has approved the budget for fiscal year 2010, which includes financing for a targeted and consolidated social welfare program.</li> </ul>
	Reduction of hospital admissions through expansion of the drug discount system under the state health insurance scheme.	<ul style="list-style-type: none"> <li>The Government, through MSWL, has undertaken critical assessment of the existing drug discount system.</li> <li>The Government, through MSWL, has established a working group for improving the drug discount system.</li> <li>The Government, through MSWL, has finalized the guidelines on the expanded drug discount system.</li> </ul>	<ul style="list-style-type: none"> <li>The Government, through MSWL, has approved an improved drug discount system based on the results of the assessment.</li> <li>The Government, through MSWL, has pilot-tested the key aspects of the expanded drug discount system.</li> </ul>
	Target subsidies for state health insurance contribution through proxy means testing.	The Government, through MSWL, has established a ministerial working group to target health insurance subsidies.	<ul style="list-style-type: none"> <li>The Government, through MSWL, has finalized the action plan for implementing targeted health insurance subsidies.</li> <li>The Government has prepared a draft amendment of the Health Insurance Law.</li> </ul>
Health	Establishment of an Emergency Mechanism to ensure supply of essential vaccines, medicines and other medical supplies in the case of acute shortages.	The Government, through the Ministry of Health (MOH), has established a working group for the Emergency Mechanism.	The Government, through MOH, has established the Emergency Mechanism, which will encompass (i) the identification of funding, and (ii) the availability of guidelines.
	Protection of children against malnutrition by expanding the coverage of household micronutrients fortification.	<ul style="list-style-type: none"> <li>The Government, through MOH, has established a working group for micronutrients expansion.</li> <li>The Government, through MOH, has finalized the expansion plan, which includes targeting measures.</li> </ul>	The Government, through MOH, has approved expansion of the coverage of the household micronutrients fortification.
	Reduction of health care out-of-pocket expenses for the poor through a medicard program for the poor.	The Government, through MOH and MSWL, has established a joint MOH-MSWL working group for medicard.	<ul style="list-style-type: none"> <li>The Government, through MOH, has approved the introduction of medicard for the poor, based on either proxy means-testing or a transition strategy until proxy means testing is finalized.</li> <li>The Government, through MOH, has finalized the action plan on the implementation of medicard.</li> </ul>

Sector	Policy reform area	Phase 1 Policy measures	Phase 2 Policy measures
Education	Improvement in the targeting of subsidies for secondary level textbooks, including for the poor.	The Government, through the Ministry of Education, Culture and Science (MOECS), has established a working group to assess the implementation viability of proxy means testing.	The Government, through MOECS, has approved targeted subsidies for secondary level textbooks taking into account the findings of the working group.
	Enhancement of in-service teachers' training system with an expansion of new teaching method which supports children's development (including <i>ger</i> areas <sup>4</sup> )	The Government, through MOECS, has prepared a draft Action Plan for an in-service teachers' training system to expand new teaching methods.	<ul style="list-style-type: none"> <li>The Government, through MOECS, has finalized the Action Plan for in-service teachers' training system to expand new teaching methods.</li> <li>The Government, through MOECS, has printed and distributed teacher's guidebooks on new teaching methods to all relevant teachers.</li> </ul>
	Evaluation system for teachers is consistent with new educational standards.	The Government, through MOECS, has established a working group to assess the results of the evaluation system for the new teaching methods piloted under ministerial order 416.	The Government, through MOECS, has approved the new evaluation system.
Urban	Revision of the Ulaanbaatar Master Plan, including <i>ger</i> areas, and the prioritization of programs, to ensure basic services and improved living conditions.	The Government, through the Ministry of Roads, Transportation, Construction and Urban Development (MRTCUD) and the Ulaanbaatar Municipal Office, has established a working group, which will include environmental and resettlement experts, to (i) revise the Ulaanbaatar Master Plan based on the final draft of the Ulaanbaatar Master Plan study, and (ii) prioritize programs.	The Parliament has approved the budget for financial year 2010, which includes funding for the revision of the Master Plan.
	Capacity building and development of guidelines for the improvement of living conditions in <i>ger</i> areas.	The Government, through the Ulaanbaatar Municipal Office, has established a working Group for capacity building for the development of the <i>ger</i> areas.	The Government, through the Ulaanbaatar Municipal Office, has developed capacity building materials and guidelines for (i) the development of <i>ger</i> areas, and (ii) environment and other social safeguard policies.

Source: JICA

### 1.1.3.2 Issues on the Policy Matrix

Although a policy matrix is not stylized, the policy matrix of the Program (Table 1) is similar to policy matrixes for other budget support type assistance by JICA in terms of the forms of writing and reasoning. It has a basic character as a list of policy reform areas or a list of policy actions which the recipient government should achieve in order to obtain a loan. This kind of policy matrix enables the clear sharing of policy measures to be achieved for the short-term. However, until when, what and how the Program operates regarding the policy reform areas and the ultimate goals of the Program remain difficult

<sup>4</sup> *Ger* Areas have developed on Ulaanbaatar city's periphery and the majority of the residents are the poor (see the photograph at the beginning of this report). A *ger* is a traditional portable tent used as a dwelling by nomads in Mongolia.

to understand. Thus it was very difficult to confirm the achievements of the Program and evaluate the Program in this ex-post evaluation. In order to evaluate the Program, the evaluator had to restructure the evaluation framework in implementing the ex-post evaluation, as mentioned in “2.3 Constraints during the Evaluation Study”.

One of the first issues on the forms of writing in the policy matrix for the Program is that the evaluation framework such as outputs, outcomes and impacts was not clearly written. Reorganizing the framework in accordance with what was actually done in the Program, the actual scope of works for the Program was the completion of the policy measures which were stipulated as policy conditions by donors for reforms aiming at the greater efficiency of the financial management by the government of Mongolia and at protection of the poor when donors extended the loan. Therefore the achievement of the policy measures is considered as the Program outputs<sup>5</sup>. Secondly, there was the issue that the completion of all the policy measures did not lead to the completion of the policy reform as effects would not emerge until the mid- or long-term, for example, in the case of a reduction of hospital admissions through the expansion of the drug discount system under the state health insurance scheme. Moreover, it is not clear how much progress should be made in reforms for the improvement of the efficiency of financial management and the revision of social welfare programs to protect the poor. In the project objective in JICA’s appraisal document (as mentioned later in “1.2 Project Outline”) it is also unclear how much progress should have been made in reforms by the completion of the outputs (ensuring and strengthening basic social services and protecting essential social sector expenditures).

## 1.2 Project Outline

The objective of the Program is to protect the poor during the financial crisis and to improve the targeting of social assistance and the living conditions of the poor by ensuring and strengthening basic social services and protecting essential social sector expenditure, thereby contributing to improvement of public expenditure management, and an enhancement of social development in Mongolia.

---

<sup>5</sup> ADB, a co-financing institution with JICA, prepared the Design and Monitoring Framework (hereinafter referred to as “DMF”) for monitoring the Program as well as specifying the framework of the Program, namely output, outcome and impact, on the DMF. According to the DMF, the policy reform areas on the policy matrix are regarded as outputs and the policy measures are regarded as performance indicators in order to measure achievement.

	Phase I	Phase II
Loan Approved Amount/ Disbursed Amount	2,894 million yen / 2,894 million yen	1,550 million yen / 1,550 million yen
Exchange of Notes Date / Loan Agreement Signing Date	June, 2009 / June, 2009	March, 2012 / March, 2012
Terms and Conditions	Interest rate: 0.8% Repayment period: 30 yrs (Grace period: 10 yrs) Conditions for General procurement untied	Interest rate: 0.8% Repayment period: 20 yrs (Grace period: 6 yrs) Conditions for General procurement untied
Borrower / Executing Agency	The Government of Mongolia / Ministry of Finance	The Government of Mongolia / Ministry of Finance
Final Disbursement Date	August, 2009	July, 2012
Main Contractor	None	None
Main Consultant	None	None
Feasibility Studies, etc.	<p>1. Technical Cooperation:</p> <p>1) Project for Strengthening Systems for Improving and Disseminating Child-Centered Teaching Methods (I) (II)</p> <p>2) The Study on the City Master Plan and the Urban Development Program of Ulaanbaatar City</p> <p>3) The Project on Capacity Development in the Urban Development Sector in Mongolia</p> <p>2. Grant Aid:</p> <p>1) The Project for Improvement of Primary Education Facilities (Phase IV)</p> <p>2) The Project for Community-Led <i>Ger</i> Area Upgrading in Ulaanbaatar City (Grant Aid for Community Empowerment)</p> <p>3. Other donors etc.:</p> <p>Asian Development Bank (ADB):</p> <p>1) Social Sectors Support Program (co-finance)</p> <p>2) Food and Nutrition Social Welfare Program and Project</p> <p>World Bank (WB): Development Policy Credit</p> <p>International Monetary Fund (IMF): Stand-By Arrangement Program (SBA)</p>	



## **2. Outline of the Evaluation Study**

### 2.1 External Evaluator

Naomi Murayama, OPMAC Corporation

### 2.2 Duration of Evaluation Study

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

Duration of the Study: July 2014 – November 2015

Duration of the Field Study: September 21, 2014 – October 3, 2014

March 2, 2015 – March 6, 2015

### 2.3 Constraints during the Evaluation Study

The Program has different characteristics to an ordinary Japanese ODA project and the loan proceeds are disbursed by the achievement of policy conditions (policy measures). At the appraisal, the achievement of policy conditions were verified. On the basis of this characteristic of the Program, the evaluator analyzed the effects of the Program by verifying the achievement of policy conditions before the disbursement (including the appropriateness of the appraisal by JICA). The evaluator viewed the progress of the reforms after disbursement as impacts of the Program and analyzed this. However, it was necessary to reorganize the views on the policy matrix and operation and the effect indicators set at the time of the appraisal, especially when the effectiveness and impacts were evaluated.

#### (1) View on the Policy Matrix

Since output, outcome and impact are not mentioned in the policy matrix for the Program, the evaluator set the evaluation framework for conducting the ex-post evaluation. In addition, the evaluator reorganized the output (ensuring and strengthening basic social services and protecting essential social sector expenditure), the outcome (to protect the poor during the financial crisis and to improve the targeting of social assistance) and the impact (improvement of public expenditure management, and the enhancement of social development in Mongolia) mentioned in the above Project Outline and as in Table 2 below, with consideration for the actual scope of assistance by donors in the Program and the time it would need for the effects to emerge.

Table 2: Evaluation Framework for the Ex-post Evaluation

<b>Evaluation Framework</b>	<b>Indicators</b>
Output	Avoidance of financial collapse
Outcome	Achievement of policy measures
Impact 1 (Medium term)	Achievement of policy reform areas and Operation and Effect Indicators set at the time of appraisal (excluding a part of them)
Impact 2 (Mid- and long term)	To protect the poor during the financial crisis and to improve the targeting of social assistance and living conditions of the poor
Impact 3 (Long term)	To improve public expenditure management and enhancement of social development

The subjects of impact are the on-going policy reforms. However, the effects of these were not clear at the time of the ex-post evaluation. It was also unclear how much reforms might have progressed. Therefore, the evaluator only analyzed the on-going policy reforms as impacts and did not evaluate the results.

## (2) Handling of the Operation and Effect Indicators

Eleven Operation and Effect Indicators were set for the evaluation of the effects of the Program at the time of the appraisal as seen in Table 3 below. However, regarding many of these indicators, effects were not emerged only by completing the policy measures. Therefore the evaluator analyzed the indicators excluding the “Number of teacher instruction guides related to new teaching methods” as impact. Some indicators, including the “Number of teacher instruction guides related to new teaching methods” were closely connected to the technical cooperation projects related to the Program. Although it was available during implementation of the projects, it was difficult to obtain the latest data because data was not collected after project completion..

Table 3: Reorganization of the Indicators in the Ex-post Evaluation for the Program

<b>Indicators</b>	<b>Evaluation Levels</b>
Poverty rate	To be evaluated as Impact 2 in light of the above (1)
Monthly consumption value of the poor population	To be evaluated as Impact 2 in light of the above (1)
Number of prefectures where a household survey using the proxy means testing method was conducted	To be evaluated as Impact 1 in light of the above (1)
Government subsidies for the drug discount program	To be evaluated as Impact 1 in light of the above (1)
Government subsidies for state health insurance	To be evaluated as Impact 1 in light of the above (1)
Percentage of children suffering malnutrition	To be evaluated as Impact 1 in light of the above (1)
Diffusion rate of medical cards among the poor population	To be evaluated as Impact 1 in light of the above (1)
Percentage of students receiving free textbooks in secondary education courses	To be evaluated as Impact 1 in light of the above (1)
Rate of attendance for in-service teacher training	To be evaluated as Impact 1 in light of the above (1)
Number of teacher instruction guides related to new teaching methods	To be evaluated as Effectiveness. However, there were constraints in obtaining the necessary data.
Number of community organizations involved in <i>ger</i> area development	To be evaluated as Impact 2 in light of the above (1)

In this ex-post evaluation, the efficiency of the Program was not evaluated for the following reasons:

- While inputs are funds for the general budget of the government of Mongolia, outputs are the reforms of the social protection sector. Thus the inputs are not the counterpart of the outputs in the Program;
- It is difficult to quantify the outputs; and
- In the case of a budget-support-type program, the original and the actual of the program period and program costs are always same.

### **3. Results of the Evaluation<sup>6</sup>**

#### 3.1 Relevance

##### 3.1.1 Relevance to the Needs of Mongolia

###### 3.1.1.1 Financing Needs

In order to receive the IMF program, the government of Mongolia accepted a supplementary budget that had made a cut of around 10% from the initial budget and had kept the budget deficit within 6% of GDP as required by the IMF in March 2009.

Under these circumstances, the IMF made a forecast for the fund required by the government of Mongolia for two years, in 2009 and 2010. According to the forecast, the IMF estimated a budget deficit of 6% of GDP in 2009 and of 4% in 2010, and that a total of USD 205 million would be required in two years (USD 145 million in 2009 and USD 60 million in 2010), excepting the amount procured domestically by the government of Mongolia. At that time, the government had difficulty in raising funds due to a lack of liquidity in the domestic banking sector, and had more difficulty raising commercial money from the overseas financial market due to the rising cost of borrowing. Therefore, the government was compelled to depend on donors that provided highly concessional funds in order to raise the funds.

In response to this, the World Bank extended about USD 70 million, ADB extended about USD 60 million, India extended about USD 25 million and JICA extended about USD 50 million. These funds were used to supplement the needs (insufficient funds) (Table 4).

---

<sup>6</sup> In the Program, the overall rating and ratings and sub-ratings for each evaluation criterion were not given for the following reasons;

- i) the Program cannot be compared with other projects that have a uniform method of ratings due to the a vastly different content from ordinary projects;
- ii) the ex-post evaluation of the Program is a comprehensive program evaluation including assistance from other donors and other external factors; and
- iii) it is difficult to judge the accomplishments against the inputs of the Program clearly.

However, the results of the evaluation of each criterion were explained.

Table 4: Assistance Needs and Actual Amount Disbursed by Donors

Unit: million USD

Amount needed	Amount disbursed by donors (actual)
Total for two years: 205	Total : 205
	Of which WB: 70
	ADB: 60
	JICA: 50
	India: 25

Source: IMF and Ministry of Finance of Mongolia

As of March 2009, according to a debt sustainability analysis by the IMF and the World Bank, the external debt ratio of the government of Mongolia was temporarily raised due to donor assistances in response to the financial crisis. The debt-service ratio also increased from 2012 to 2015 due to the repayment of the loan based on the IMF-SBA. However, this was categorized as “low risk of debt distress” because of the anticipated incremental revenue from new mining development.

### 3.1.1.2 Development Needs

Before the appraisal, each sector faced the following issues and needed gradual reforms.

#### (1) Social Welfare

The government of Mongolia introduced the Child Money Program (hereinafter referred to as “CMP”) - the first social welfare assistance program to use PMT. However, in 2006, Parliament made the CMP a universal entitlement for all children below 18 years of age and social transfers rose sharply from 2006 to 2008. The number of social welfare beneficiaries soared from 160,000 in 2004 to more than 1 million in 2006. In 2008, the food crisis occurred. The response to the crisis increased welfare benefits by a further 20% and placed a financial burden on the government. At that time, 70% of social welfare beneficiaries were considered to be non-poor.

#### (2) Health

In Mongolia, the allocation of government expenditure had been heavily oriented toward the secondary and tertiary levels. Mongolia had had a relatively high level of health expenditure, accounting for 10% of overall government expenditures in 2008. Key reasons for the high levels of health expenditure are the following:

- i) An estimated 40% of all patients were thought to take higher levels of medical care as they could receive subsidies even if they did not need them.
- ii) On the other hand, the poor often had no health insurance and when, at the primary

level, they were unable to afford prescribed non-subsidized drugs, their condition might deteriorate, resulting in hospitalization. (in Mongolia, people could receive subsidies only if they took the higher level of medical care so the poor did not go to hospital before their condition deteriorated.)

### (3) Education

Before the financial crisis, the cost of education for parents was a major concern for the poor. In particular, textbook costs accounted for over 50% of educational expenditure for the poorest segment of the population and this imposed a burden on the poor. In theory, the government provided textbooks to 20% of the students who were deemed poor. However, the existing targeting program was administered inefficiently. There was leakage to the non-poor and coverage was low, with only 9% of poor students reporting that they had received free textbooks.

### (4) Urban Development

The population of Ulaanbaatar City was both concentrating and growing rapidly to reach 40% of the national total. Much of this growth had taken place in *ger* areas where the massive majority of the poor lived. As a result, basic infrastructure such as water supply, sewerage systems and electricity in these areas were inadequate and living conditions were deteriorating.

As described above, the objective of the Program was to establish a mechanism of ensuring and strengthening basic social services for the poor as well as improving public expenditure management by targeting poor beneficiaries and addressing the financial crisis. It can be said that the objective met the development needs.

#### 3.1.2 Relevance to the Development Plan of Mongolia

At the time of the appraisal, it was confirmed that social welfare, health, education and urban development (including development in *ger* areas) were priority issues, in addition to poverty reduction and the satisfaction of basic needs, in the mid- and long-term national development strategy of Mongolia, “Millennium Development Goals (MDGs) – based Comprehensive National Development Strategy of Mongolia” (2007–2021). This national development strategy was valid at the time of the ex-post evaluation and the priority sectors had not been changed.

Based on the above, it can be considered that the Program objective reflected Mongolia’s development policy consistently from the time of both the appraisal to the time of the ex-post evaluation.

### 3.1.3 Relevance to Japan’s ODA Policy

The Country Assistance Strategy for Mongolia in February 2009 was in line with the four priorities listed in the Japanese Government 2004 Country Assistance Program for Mongolia: i) institution-building and human capacity building for market-oriented economic reform, ii) rural development, iii) environmental conservation and iv) infrastructure development for facilitating economic activities. It demonstrated objectives to support policies to diversify industries and consolidate the market-oriented economy aiming at a breakaway from an economy depending on national resources, the fragility of which was manifested by the financial crisis, to support the solving of urban problems getting worse every year through population concentration over the medium term, and to support basic social services including in rural areas. As far as human capacity development is concerned, a strategy for cooperation was announced which had both hard and soft aspects in order to improve the quality of education under the priority, “institution-building and human capacity building for market-oriented economic reform”. Moreover, the JICA Country Analytical Work prepared in 2011 included i) sustainable development of the mineral sector and reinforcement of governance, ii) assistance toward the realization of inclusive growth, and iii) strengthening of the urban function of Ulaanbaatar City. The Program is seen as “assistance toward the realization of inclusive growth” including for the poor.

JICA had a leading role in assisting Mongolia, especially in the fields of education and urban development and had the projects shown in Table 5.

Table 5: Major JICA Projects in Mongolia

Sector	Scheme	Project
Human resource development	Grant Aid	• The Project for Improvement of Primary Education Facilities
	Technical Cooperation	• The Mongolian Teachers Re-training Project • The Project for Strengthening Systems for Improving and Disseminating Child-Centered Teaching Methods
Local development	Technical Cooperation	• The Complex Agricultural Livestock Sector Support Project in Mongolia
Health	Development Study	• Study on the Health Sector Master Plan (Study on Mongolia's Health Sector)
	Technical Cooperation	• Community Health Development with Special Attention to Mother and Child through Local Voluntary Participation in Bagh No.3, Bulgan <i>Aimag</i>
Urban development	Development Study	• The Study on the City Master Plan and the Urban Development Program of Ulaanbaatar City

Source: Documents provided by JICA

The Program is consistent with Japan’s ODA policy and JICA could leverage its strength by playing a leading role in preparing the policy matrix in previous and existing JICA fields of assistance.

#### 3.1.4 Relevance to Co-financing for Budget Support with Other Donors under the International Aid Framework

As mentioned in “1.1.2 Outline of the International Aid Framework”, the Program was to support policy reform for social protection in the agreed four reform areas (fiscal policy and management, social protection, mining and financial sectors) to be promoted by the government of Mongolia at the donor conference where related parties discussed responses to the financial crisis in Mongolia. JICA played a leading role in the social protection sector, in particular in the education and urban development sectors, in Mongolia before the commencement of the Program. When the government of Mongolia responded to the financial crisis, JICA’s activities were highly appreciated and the government of Mongolia requested that JICA supported these sectors.

To conduct not project-type cooperation but budget-support-type cooperation is relevant in light of the input in the general budget of concessional funds necessary to avoid financial crisis, as mentioned at “3.1.1.1 Financing Needs”. The co-financing with ADB under the international financial framework is also relevant for the following reasons:

- i) co-financing has more advantage in scale than financing by JICA alone;
- ii) it is necessary to encourage not only specific ministries and agencies but the whole government to pursue fiscal reform in the broad areas of the social sector;
- iii) the Mongolian side has the advantage of more efficient aid coordination than when dealing with assistance from individual donors.

#### 3.1.5 Relevance to the Process of Preparation for the Policy Matrix

The Program was more of the nature of emergency assistance and so there was the constraint that the related parties could not take plenty of time for the preparation study to formulate the Program. It was necessary that it was financed surely and in a short time. For these reasons, the government of Mongolia requested that major donors supporting the budget had a good track record of cooperation in the relevant sectors.

In spite of these constraints, the program was designed to strengthen the response to a similar financial crisis in the future by aiming at efficient social welfare expenditure through better targeting while maintaining social welfare expenditure in order to protect the weak. The Program has validity in that it is possible to transfer know-how efficiently by assisting sectors where donors have advantages.

Under circumstances where donors have advantages in the sectors and the policy matrix has to be prepared in a short time, the program tends to be formulated under the donors’ initiative. According to the related parties, however, the Ministry of Finance of Mongolia organized the diverse parties concerned, actively discussing with donors and jointly compiling the policy matrix. It is considered that the preparation process of the policy matrix was relevant in light of the active involvement of the Mongolian side.

The issues of writing the policy matrix are as described in “1.1.3.2 Issues on the policy matrix”.

The objective of the Program was to establish a mechanism for ensuring and strengthening basic social services for the poor while improving public expenditure management by targeting poor beneficiaries as well as addressing the financial crisis. This objective was consistent with the funding needs and the development needs of Mongolia as well as with Mongolia’s development plan and Japan’s ODA policy. It is relevant from the viewpoints of the advantage of the scale and efficiency of the aid that JICA provided for Mongolia with co-financing for budget support with other donors under the IMF program. The government of Mongolia was proactive in preparing the policy matrix which was compiled with actions to be taken by the Mongolian government and the preparation process was appropriate. Therefore, its relevance is high.

### 3.2 Effectiveness<sup>7</sup>

As mentioned in “2.3 Constraints during the Evaluation Study” the effects of the Program were evaluated in this ex-post evaluation by achievement of the policy measures up to disbursement (including the appropriateness of the appraisal conducted by JICA). The evaluator tried to evaluate the impact of the Program based on the Operation and Effects Indicators set at the time of the appraisal where policy reforms had been progressing and effects of the reforms were emerging after disbursement.

The “Successful macroeconomic stabilization program” set as a general condition of the policy matrix is regarded as having been achieved by the successful completion of the IMF Program.

The IMF Program was completed when the final tranche was disbursed in September 2010. The ex-post evaluation report for the IMF Program said that the major objectives were achieved and that the program was successful. In fact, the Mongolian economy and public finances were down dramatically in 2008 and 2009 but they had recovered rapidly since 2010. This was a major factor in the recovery, reversing a downward trend in the copper price as well as conducting reforms for counter-cyclical fiscal management under the IMF. In addition to the recovery of Mongolian economy, the foremost achievement under the IMF Program was the Parliamentary approval of the Fiscal Stability Law (hereinafter referred to as “FSL”)<sup>8</sup>. The benchmark “Pass a comprehensive social transfer reform that saves money and protects the poor through better targeting” one of the eight structural benchmarks<sup>9</sup> was not achieved, but the IMF

---

<sup>7</sup> Evaluation for Effectiveness is to be put with consideration of Impact.

<sup>8</sup> The budgeting under this law started in Fiscal Year 2013. The detailed information is given later in Impact.

<sup>9</sup> These consist of policies related to structural reforms. They include i) difficult items to be monitored objectively and ii) some of the important policies for success in the program even though lack of attainment does not affect the termination of the IMF loan.



Program was completed. Since the structural benchmark was not a condition for the IMF loan under the stand-by arrangement, the general conditions were accomplished by the achievement of the performance criteria (policy measures) which had to be achieved.

In the following “3.2.1 The Achievement Status of Policy Measures at the Time of the Appraisal”, the evaluation results for the achievement of policy measures in each sector are described including the appropriateness of the confirmation process by JICA at the time of the appraisal.

### 3.2.1 The Achievement Status of Policy Measures at the Time of the Appraisal

#### 3.2.1.1 Social Welfare

Before Program implementation, there were a lot of universal social welfare programs with a small amount of benefits which were not rewarded in accordance with income levels. Therefore, the Program included the concept of targeting (specification of poor households through PMT) as a response to financial stringency and for the enhancement of social protection for the poor. The aim was to make fiscal management efficient by consolidating social welfare programs.

Under these objectives, the government of Mongolia addressed three policy reform areas: i) social welfare reform to improve efficiency and protect the poor, ii) reduction of hospital admissions through expansion of the drug discount system under the state health insurance scheme, and iii) target subsidies for state health insurance contributions through PMT, and eleven policy measures.

The policy reform areas ii) and iii) had been achieved by December 2009. It took time for parliamentary approval for the policy reform area i) because of a conflict of opinion among the political parties. However, the targeted and consolidated social welfare programs were submitted to the Parliament in January 2010. The background to this was that the Democratic Party, one of the ruling coalition parties, publicly stated their commitment to reviving universal CMP which had been abolished in 2009 and said it was against the targeted program to poor households. Since 2013, this has led to difficulties in reviving the universal social welfare programs that the FSL enacted in the 2010 spring session of Parliament with the assistance of the IMF. The universal cash transfer program of the Human Development Fund that gives the proceeds from mineral resources development back to the population as a whole was to be abolished in June 2012. As one social welfare program after another was to be abolished, the Democratic Party demonstrated a forward-looking stance on targeting the beneficiaries due to the necessity of a social welfare program for the poor. In November 2011, the Parliament approved the budget for 2012, which included financing for a targeted and consolidated social welfare program.

Table 6: Achievement Status of Policy Measures in the Social Welfare Sector

Policy Reform Area and Policy Measures	Achievement of Policy Measures
<b>Social welfare reform to improve efficiency and protect the poor</b>	
The Government, through the Ministry of Social Welfare and Labor (MSWL), has prepared a plan to reform the social welfare system, which improves targeting through proxy-means testing and consolidates social welfare programs. The plan will incorporate (i) institutional changes; (ii) a plan of action for implementation, including a transition strategy; (iii) options for addressing the challenges; (iv) stakeholders' responsibilities; and (v) funding.	June, 2009: The Government has prepared a plan to reform the social welfare system.
The Cabinet has submitted to the Parliament a targeted and consolidated social welfare program.	January, 2010: the Cabinet has submitted a draft amendment of the Social Welfare Law to the Parliament. (January, 2012: enactment of the bill)
The Parliament has approved the budget for fiscal year 2010, which includes financing for a targeted and consolidated social welfare program.	End of November, 2011: the Parliament has approved the budget for fiscal year 2012, which includes financing for a targeted and consolidated social welfare program.
<b>Reduction of hospital admissions through expansion of the drug discount system under the state health insurance scheme</b>	
The Government, through MSWL, has undertaken critical assessment of the existing drug discount system.	June, 2009: the Government has submitted the assessment report to ADB and JICA.
The Government, through MSWL, has established a working Group for improving the drug discount system.	May, 2009: the Government has established the WG.
The Government, through MSWL, has finalized the guidelines on the expanded drug discount system.	June, 2009: the Government has finalized the guidelines.
The Government, through MSWL, has approved an improved drug discount system based on the results of the assessment.	December, 2009: the Health Insurance Council of MSWL has approved an improved drug discount system.
The Government, through MSWL, has pilot-tested the key aspects of the expanded drug discount system.	October, 2009: MSWL has pilot-tested the key aspects of the expanded drug discount system.
<b>Target subsidies for state health insurance contribution through proxy means testing</b>	
The Government, through MSWL, has established a ministerial working group to target health insurance subsidies.	May, 2009: the Government has established the WG.
The Government, through MSWL, has finalized the action plan for implementing targeted health insurance subsidies.	December, 2009: MSWL has finalized and approved the action plan.
The Government has prepared a draft amendment of the Health Insurance Law.	December, 2009: MSWL has prepared a draft amendment of the Health Insurance Law.

Source: JICA and ADB

### 3.2.1.2 Health

The health component of the Program aimed to mitigate the negative impact on the poor affected by the financial crisis. Under this objective, the government of Mongolia addressed three policy reform areas: i) the establishment of an emergency mechanism to ensure the supply of essential vaccines, medicines and other medical supplies in case of acute shortages, ii) the protection of children against malnutrition by expanding the coverage of household micronutrients fortification, and iii) the reduction of health care out-of-pocket expenses for the poor through a medicard program for the poor, and eighteen policy measures.

The funding of the emergency mechanism was not accomplished until October 2010

due to the timing of budget compilation in Mongolia but the other policy measures were achieved by December 2009.

Table 7: Achievement Status of Policy Measures in the Health Sector

Policy Reform Area and Policy Measures	Achievement of Policy Measures
<b>Establishment of an Emergency Mechanism to ensure supply of essential vaccines, medicines and other medical supplies in case of acute shortages.</b>	
The Government, through Ministry of Health (MOH), has established a working group for the Emergency Mechanism.	May, 2009: the Government has established the WG.
The Government, through MOH, has established the Emergency Mechanism, which will encompass (i) the identification of the funding, and (ii) the availability of guidelines.	November, 2009: MOH has approved the Emergency Mechanism including guidelines. October, 2010: a notification on budget implementation from the MOH deputy secretary has been distributed to medical institutions.
<b>Protection of children against malnutrition by expanding the coverage of household micronutrients fortification.</b>	
The Government, through MOH, has established a working group for micronutrients expansion.	May, 2009: the Government has established the WG.
The Government, through MOH, has finalized the expansion plan, which includes targeting measures.	June, 2009: the Government has finalized the expansion plan.
The Government, through MOH, has approved the expansion of the coverage of the household micronutrients fortification.	October, 2009: MOH has approved the expansion plan by a ministerial order.
<b>Reduction of health care out-of-pocket expenses for the poor through medicard program for the poor.</b>	
The Government, through MOH and MSWL, has established a joint MOH-MSWL working group for medicard.	June, 2009: the Government has established the WG.
The Government, through MOH, has approved the introduction of medicard for the poor, based on either proxy means-testing or a transition strategy until proxy means testing is finalized.	December, 2009: MOH has approved the medicard program including the action plan by a ministerial order.
The Government, through MOH, has finalized the action plan on the implementation of medicard.	

Source: JICA and ADB

### 3.2.1.3 Education

The education component of the Program aimed to mitigate the negative impact on the poor affected by the financial crisis in terms of essential factors ensuring the quality of education such as textbooks, an evaluation system for teachers and an in-service teachers' training system.

Under this objective, the government of Mongolia addressed three policy reform areas: i) improvement in the targeting of subsidies for secondary level textbooks, ii) enhancement of the in-service teachers' training system with the expansion of new teaching methods which support children's development, and iii) an evaluation system for teachers that is consistent with new educational standards, and seven policy measures.

All the policy measures were completed by December 2009 as planned. These policy reform areas, especially ii) and iii), were related to JICA's existing technical cooperation project, "Project for Strengthening Systems for Improving and Disseminating Child-Centered Teaching Methods (I) and (II)", and they were expected to lead to an

enhancement of the in-service teachers' training system with an expansion of the new teaching methods aimed at by the project.

There was grant assistance from the government of Japan. The government helped in the printing of 96,130 monitoring manuals and manuals for making tutorial guides for eight subjects, 27 types and 387 pages, for mathematics (for elementary school), and humans and the environment, integrated study, humans and nature, IT, chemistry, physics, and mathematics (for junior high school). The grant assistance was also given in distribution to schools and teachers through provincial bureaus of education and culture and district education departments.

Table 8: Achievement Status of Policy Measures in the Education Sector

Policy Reform Area and Policy Measures	Achievement of Policy Measures
<b>Improvement in the targeting of subsidies for secondary level textbooks, including to the poor.</b>	
The Government, through Ministry of Education, Culture and Science (MOECS), has established a working group to assess the implementation viability of proxy means testing.	June, 2009; the Government has established the WG.
The Government, through MOECS, has approved targeted subsidies for secondary level textbooks taking into account the findings of the working group.	November, 2009: MOECS has approved targeted subsidies for secondary level textbooks by a minister order.
<b>Enhancement of the in-service teachers' training system with the expansion of new teaching methods which support children's development (including in <i>ger</i> areas)</b>	
The Government, through MOECS, has prepared a draft Action Plan for the in-service teachers' training system to expand new teaching methods.	June, 2009: the Government has finalized the draft Action Plan.
The Government, through MOECS, has finalized the Action Plan for the in-service teachers' training system to expand new teaching methods.	December, 2009: MOECS has approved the Action Plan of in-service teachers' training system to expand new teaching methods.
The Government, through MOECS, has printed and distributed the teacher's guidebooks on the new teaching methods to all relevant teachers.	December, 2009: MOECS has printed and distributed the teacher's guidebooks on the new teaching methods to all relevant teachers (27 kinds, 96,130 guidebooks) and submitted the distribution list to ADB and JICA.
<b>Evaluation system for teachers is consistent with new educational standards.</b>	
The Government, through MOECS, has established a working group to assess the results of the evaluation system for the new teaching methods piloted under ministerial order 416.	June, 2009: the Government has established the WG.
The Government, through MOECS, has approved the new evaluation system.	December, 2009: MOECS has approved the new evaluation system by a ministerial order.

Source: JICA and ADB

#### 3.2.1.4 Urban Development

The urban development component of the Program aimed to contribute to improving social protection policy for the poor through the promotion of urban development plans including for *ger* areas where a lot of poor households live in Ulaanbaatar City, and urban development projects based on the plan.

Under this objective, the government of Mongolia addressed two policy reform areas:

i) revision of the Ulaanbaatar Master Plan, including for *ger* areas, and the prioritization

of programs and ii) capacity building and development of guidelines for the improvement of living conditions in *ger* areas, and four policy measures. All the policy measures have been achieved.

JICA supported the improvement of legal systems and related human development through the technical cooperation project, “the Project on Capacity Development in the Urban Development Sector in Mongolia” from 2010 to 2013. This contributed to attaining the policy measures under the Program.

Table 9: Achievement Status of Policy Measures in Urban Development Sector

Policy Reform Area and Policy Measures	Achievement of Policy Measures
<b>Revision of the Ulaanbaatar Master Plan, including for <i>ger</i> areas, and the prioritization of programs, to ensure basic services and improved living conditions.</b>	
The Government, through the Ministry of Roads, Transportation, Construction and Urban Development (MRTCUD) and the Ulaanbaatar Municipal Office, has established a working group, which will include environmental and resettlement experts, to (i) revise the Ulaanbaatar Master Plan based on the final draft of Ulaanbaatar Master Plan study, and (ii) prioritize programs.	June, 2009: the Government has established the WG.
The Parliament has approved the budget for financial year 2010, which includes funding for the revision of the Master Plan.	January, 2010: the Ministry of Finance has released a confirmation document on securing a national budget for fiscal year 2010 (300 million MNT) for revision of the Master Plan.
<b>Capacity building and development of guidelines for the improvement of living conditions in <i>ger</i> areas.</b>	
The Government, through Ulaanbaatar Municipal Office, has established a working Group for capacity building for the development of <i>ger</i> areas.	May, 2009: the Government has established the WG.
The Government, through the Ulaanbaatar Municipal Office, has developed capacity building materials and guidelines for (i) the development of <i>ger</i> areas, and (ii) environmental and other social safeguard policies.	August, 2010: Ulaanbaatar Municipal Office has approved capacity building materials and guidelines for (i) the development of <i>ger</i> areas, and (ii) environmental and other social safeguard policies.

Source: JICA and ADB

### 3.2.2 Appropriateness of the JICA Appraisal Process

In the social welfare sector the policy measures were completed almost as planned although it took time to attain one of the policy measures due to differences in opinion among the ruling parties in Mongolia. ADB and JICA verified the details based on evidence such as ministerial orders, draft laws and guidelines when they confirmed whether or not the policy measures had been completed. Moreover, ADB and JICA managed the progress of the Program by providing advice through experts and technical assistants that were hired or which were given outside of the Program if necessary, and by discussions through the review missions and daily communication with the Mongolian side. It is considered that this process was appropriate.

As for the targeting of beneficiaries of social welfare allowances, more time was necessary to complete the policy measures in light of the difficulties in getting parliamentary

approval for draft laws and budgets and in establishing the database serving as a basis for targeting. However, reforms for an effective and efficient social welfare system are important for sound fiscal management and for protection of the vulnerable. It can be considered that the setting of a deadline for promoting reforms intensively through the framework of general budget support was effective in providing the government of Mongolia with an incentive to make efforts toward reforms in terms of the enactment of concrete bills and the establishment of specific programs, although it took time to achieve the reforms.

As a result of the time taken for the attainment of the conditions in the social welfare sector, the disbursement in phase II (July 2012) was later than the planned date (December 2009). On the other hand, the Mongolian economy had positive growth after 2010 and the government of Mongolia was returning to pro-cyclical financial management such as increasing the salaries of public servants and upping the welfare budget in response to the increase in revenues. Although the Program was emergency assistance, steady reforms had a greater significance than financing that had come prior to the emergency. Therefore, it was appropriate that the reforms were supported patiently and without interruption on the grounds of non-attainment of conditions with a firm commitment to urgent disbursement.

As seen before, all the policy measures were achieved and the verification process and JICA's appraisal were appropriate; therefore, effectiveness of the Program is high.

### 3.3 Impacts

#### 3.3.1 Impacts on Implementation of Policy Reform

In this section, the progress in each policy reform area after appraisal (disbursement) and the achievement of the effect indicators are analyzed.

##### 3.3.1.1 Macro Economy

###### (1) Progress on Reform after Appraisal (Disbursement)

After avoiding the most critical situation with the help of the international society, the Mongolian economy recorded a very high growth rate of 17.5% in 2011 and 12.4% in 2012. This economic growth resulted from an increase in foreign direct investment (hereinafter referred to as "FDI") associated with Oyu Tolgoi mining development and from an economic boom in the service sector, the wholesale / retail sales sector and the construction sector depending on public investment and the economic policy of the government.

Since the FSL of 2013 came into effect, the fiscal deficit has been maintained within 2% of GDP based on law. On the other hand, the deficit, including that in the off-budget was as high as about 9% of GDP in 2013. The fiscal situation had been deteriorating year by year due to the lack of foresight in tax revenue and the expansion of government

spending from 2012 to 2014. Due to fiscal deterioration, problems began to appear in the effect of economic stimulus measures through a major spending package. This is one of the causes of the seriously weak economy. In addition, sluggish growth in FDI, a high inflation rate (14.2% in 2012 and 12.3% in 2013) and the depreciation of the Tugrik<sup>10</sup> (1,392 MNT/USD in 2012 and 1,674 MNT/USD in 2013) have influenced the economic downturn.

According to the Debt Sustainability Analysis (hereinafter referred to as “DSA”) of the IMF and the World Bank, as of November 2013, Mongolia was classified to have a “moderate risk of debt distress” due to the short- and mid-term deterioration balance of payments through a large-scale bond issue by the Development Bank of Mongolia, also to increase in public debt, decrease in FDI and coal exports, and to fiscal and financial expanding policies. This was a downgrade from a “low risk of debt distress” classification before the commencement of the IMF program in 2009.

However, the FSL serves as a certain break on fiscal deficit<sup>11</sup>, and through some of the social welfare was reformed, some efficiency of fiscal expenditure such as the abolishment of cash handouts to all households has contributed to mitigating aggravation of the situation.

## (2) Status of the Achievement of the Effect Indicators

Although the poverty headcount recorded a higher rate than the baseline data in 2010, just after the financial crisis, it has decreased since 2011. In 2012, the monthly per capita consumption of the poor reached nearly twice as much as the baseline.

Table 10: Changes in the Poverty Headcount and Monthly Per Capita Consumption of the Poor

Indicators	Baseline	Target	Actual		
	2008	2011	2010	2011	2012
Poverty headcount (%)	35.2	Same or decrease	38.7	33.7	27.4
Monthly per capita consumption of the poor (MNT)	44,589	Same or increase	n.a.	72,821	87,866

Source: Mongolian Statistical Yearbook 2013

### 3.3.1.2 Social Welfare

#### (1) Progress on Reform after Appraisal (Disbursement)

##### i) Social Welfare Reform to Improve Efficiency and Protect the Poor

Benefits for newlyweds were abolished by an amendment of the Social Welfare Law in January 2012. On the other hand, the CMP that was abolished in 2009 was revived as Human Development Funds benefits in September 2012. According to the Ministry of

<sup>10</sup> Mongolian local currency (MNT)

<sup>11</sup> The off-budget items are mainly composed of infrastructure development projects through the Development Bank of Mongolia. Other public projects include on-budgets being subject to the FSL.

Human Development and Social Protection, the government of Mongolia perceives CMP not as a part of social welfare policy but as a part of population policy and at the time of the ex-post evaluation was administering the benefits to all children less than 18 years. However, the cash handouts to all households have been abolished since the fiscal year 2013 and some social benefits have been targeted away from all households to children instead. As a basic concept of the Mongolian government, the Ministry of Human Development and Social Protection has a policy of promoting preferably targeted social welfare services from universal benefits. In the fiscal 2015 budgetary debates in Parliament, the universal benefits of the CMP, the Expectant Mother Program and the Motherhood Program for mothers who have five or more children were approved continuously as universal programs. However, there was the condition that revisions were made after a certain period. The timing of targeting beneficiaries is supposed to be discussed in Parliament from now on.

The establishment of the national database of poor households based on PMT was completed in 2014. Rules for personal information protection and database access have also been established. A cabinet secretariat order regarding the gradual introduction of targeting beneficiaries by using this database in all sectors after the fiscal year 2015 has been issued and preparation for implementation was underway as of the ex-post evaluation.

ii) Reduction of Hospital Admission through the Expansion of the Drug Discount System under the State Health Insurance Scheme

The drug discount system before program implementation was that people could receive a discount on 107 kinds of drugs at a discount rate from 50% to 70%. This took place at designated drug stores and then the drug stores could be reimbursed for the discount having reported to the Ministry of Human Development and Social Protection. However, the applicable areas were limited and the discount system for essential drugs in medical institutes for primary health care and outpatients was not working well. On the other hand, there was the reality that 40% of patients were hospitalized although they did not need to be as drugs were available without charge to inpatients.

The old system was revised in December 2009 through the policy actions of the Program. After that, further improvements to the drug discount system, which adjusted the list of discounted drugs and the reimbursement rates, were introduced again and again. The latest version of the system<sup>12</sup> as of the time of the ex-post evaluation (September

---

<sup>12</sup> The revised state health insurance law was approved by Parliament on January 29, 2015. Herewith, the drug discount system has been expanded further. For example, although the medical institutes that can prescribe the discounted drug were limited to home doctors before revision, after revisions this has expanded to general hospitals. Since the contents were under examination at the time of the ex-post evaluation (as of March 2015), the Ministry of Human Development and Social Protection did not provide detailed information on the revision.



2014) is as follows:

- To focus on reimbursement on drugs used to treat the most common diseases,
- To increase the number of drugs covered to 390, and
- To increase the reimbursement rate from 50% to 80%.

The current drug discount system is an expanded version of the old system. Whether or not hospital admissions have actually been reduced due to the expansion of the drug discount system, however, is still to be assessed.

iii) Target Subsidies for State Health Insurance Contributions through PMT

The revised state health insurance law was drafted on December 2009 as a policy action under the Program. The draft law was submitted to the Cabinet on May 2010 and to the Parliament during the autumn session of 2010. In February 2012, the Parliament issued the instruction to the Cabinet that the drafted law should be harmonized with another revised state health insurance law drafted by members of Parliament. The Cabinet fulfilled this requirement and after a suspension in Parliament proceedings for the 2012 election the law was enacted in January 2015.

The targeting of poor households based on PMT was completed by July 2014 and the government has subsidized health insurance contributions for 45,000 persons since December 2014.

(2) Status of the Achievement of the Effect Indicators

At the time of the appraisal, the government subsidies for the drug discount system and for health insurance contributions were listed as effect indicators.

A reporting system on progress after completion of the policy actions was not incorporated in the Program design. Therefore, the evaluator had great difficulty in obtaining the latest data on the effect indicators. After all the latest data was not available, however, the government subsidies for the drug discount system and for health insurance contributions grew 3.4 times and 1.3 times respectively, according to the program completion report.

Table 11: Changes in the Effect Indicators for Social Welfare Sector

Indicators	Baseline	Target	Actual
	2008	2012	2011
Subsidies for drug discount system (million MNT)	884	Same or increase	2,998
Subsidies for state health insurance contributions (billion MNT)	8.1	Same or increase	10.9

Source: JICA and Ministry of Health of Mongolia

### 3.3.1.3 Health

#### (1) Progress on Reform after Appraisal (Disbursement)

##### i) Establishment of an Emergency Mechanism to Ensure the Supply of Essential Vaccines, Medicines and Other Medical Supplies in Case of Acute Shortages

The guideline on the emergency mechanism was prepared and funding sources for the implementation of the emergency mechanism were secured as policy actions under the Program. After this, all hospitals were directed to include additional funding for vital medicines and medical devices in their annual budgets and the list of vital medicines and medical devices was distributed to all hospitals every year. A national emergency stock has been established and is maintained by a private contractor under the supervision of the National Emergency Management Agency. According to an interview with the Ministry of Health at the time of the ex-post evaluation, the budget for the fiscal year 2014 had been ensured and the program was being steadily implemented in this field.

##### ii) Protection of Children against Malnutrition by Expanding the Coverage of Household Micronutrients Fortification

By the completion of the policy actions, the provision of micronutrients to young children and pregnant women had become nationwide (since 2010). The Ministry of Health increased its budget for the procurement of vitamin A and D from MNT 90 million in 2010 to MNT 150 million in 2011. It signed a 5-year contract with a private company to deliver Ministry-of-Health-procured vitamins to health facilities. The Ministry of Health conducted evaluation work for the micronutrient project under the Program and confirmed the effects. It is the ministry policy to continue the project. According to the Ministry of Health, although the budget for fiscal year 2014 (MNT 345 million) was ensured and the micronutrients were distributed as planned, only a MNT 180 million budget for fiscal year 2015 was approved due to financial difficulties and there is the potential of incomplete distribution.

##### iii) Reduction of Health Care Out-of-pocket Expenses for the Poor through the Medicaid Program for the Poor

The government approved the introduction of the medicaid program for the poor targeted by PMT or transition measures as policy actions under the Program (December 2009). A total of 95,822 households representing the poorest 5% of the population in 21 *aimags* and nine districts of Ulaanbaatar were specified as beneficiaries based on PMT and medicards were distributed to them.

(2) Status of the Achievement of the Effect Indicators

The percentage of children with malnutrition and the coverage of the medicard program for the poor were set as effect indicators. The percentage of children with malnutrition decreased by 12.7 percentage points in 2013 and improved to 10.8% from 23.5%. The medicards, as mentioned above, have been distributed to the poorest 5 percent targeted by the PMT.

Table 12: Changes in Effect Indicators for the Health Sector

Indicators	Baseline	Baseline r	Target	Actual	
	2004	2004	2012	2010	2013
Percentage of children with malnutrition (%)	19.6	23.5	Decrease	15.3	10.8
Coverage of Medicard program for the poor (%)	0 (2008)	—	Increase	n.a.	5 (2014)

Source: Ministry of Health of Mongolia

Note: baseline r=baseline data as of 2004 which was recalculated by the 2006 standard. (due to changes in the statistical strategy)

3.3.1.4 Education

(1) Progress on Reform after Appraisal (Disbursement)

i) Improvement in the Targeting of Subsidies for Secondary Level Textbooks, including to the Poor

The targeting of subsidies for secondary level textbooks was approved by the government as a policy action under the Program. This policy reform area was designed to complement the ADB “Education for the Poor – Financial Crisis Response Project”. Subsidies for children of poor households identified through the PMT were piloted in four *aimags* and a district of Ulaanbaatar. As of the ex-post evaluation (March 2015), it had just been decided that the nationwide introduction of targeting by PMT would start from September 2015. The Ministry of Education, Culture and Science explained that it would rush to target the beneficiaries by September.

ii) Enhancement of the In-service Teachers’ Training System with an Expansion of New Teaching Methods Which Supports Children’s Development (Including in *ger* Areas) and iii) Evaluation System for Teachers Which Is Consistent with New Educational Standards

The action plan and new evaluation system were approved by the government, as a policy measure under the Program. After Program implementation, the Institute of Educational Research worked to institutionalize the teacher training and evaluation system (as mentioned later in Sustainability). However, the extent of improvement in the quality of education due to these measures will be assessed in the medium term.

## (2) Status of the Achievement of the Effect Indicators

The percentage of students receiving free textbooks in secondary education courses and the rate of attendance at in-service teacher training were set as effect indicators.

For the percentage of students receiving free textbooks in secondary education courses, the baseline in 2008 was 9% but the actual data from 2010 to 2013 remained steady at 40%. According to the Institute of Educational Research, the beneficiaries receiving free textbooks in secondary education were chosen in accordance with the following government criteria and as a result around 40% of students are constantly selected every year.

[Criteria for the distribution of free textbooks in secondary education]

- i) Households where at least three children attend a public school;
- ii) households which are no-parent, single parent, or where both parents are jobless due to handicap or their health;
- iii) households below a substantial standard of living.

Students belonging to households which correspond to any of the above.

However, as mentioned above, these criteria are scheduled not to be used and targeting by PMT will be used from September 2015.

The rate of attendance at in-service teacher training in 2013 was 129% as some teachers attended several training courses<sup>13</sup>. New teaching methods are expected to be expanded all over the country (box) and it can be considered that the new methods have become popular. On the other hand, according to an interview on site, training was not progressing as planned due to financial difficulties in 2014. However, the Ministry of Education, Culture and Science explained that a sufficient budget for fiscal year 2015 was ensured.

Table 13: Changes in Effect Indicators for the Education Sector

Indicators	Baseline	Target	Actual		
	2008	2012	2010	2012	2013
Rate of attendance for at-service teacher training (%)	60-80	Same or increase	60	n.a.	129

Source: National Institute of Educational Research

<sup>13</sup> Whether or not the target was achieved is not strictly clear because the rate of attendance when each teacher attended only one training course could not be calculated.

Box: Expansion of new teaching methods which support children's development

During the ex-post evaluation study, the evaluator visited a school which had been implementing a pilot project for the new teaching methods which support children's development. A project team consisting of three experts from the Ministry of Education, Culture and Science was stationed at the school as a home base for instruction of the new curriculum to provide guidance to several schools located in the area. According to the project team, sometimes things went well and sometimes they went badly when teachers put what they had newly learned during training into practice, depending on their understanding. However, pilot projects have been nationally implemented at 40 schools so far and it was decided that the full-scale introduction of the new teaching methods would start from May 2015.

### 3.3.1.5 Urban Development

#### (1) Progress on Reform after Appraisal (Disbursement)

##### i) Revision of the Ulaanbaatar Master Plan, Including *Ger* Areas, and Prioritization of Programs, to Ensure Basic Services and Improved Living Conditions

Assurance of the budget for revision of the Ulaanbaatar Master Plan was completed as a policy action under the Program. After that, the Master Plan was revised and approved by the 23rd Parliament on February 8, 2013.

##### ii) Capacity Building and Development of Guidelines for the Improvement of Living Conditions in *Ger* Areas

Approval of the developed guidelines and training materials for the improvement of living conditions in *ger* areas, including environmental and social safeguards by the Municipality of Ulaanbaatar (August 2010), was completed as a policy action under the Program. These guidelines were used at the seminar for community leaders and have been utilized as reference books in drafting a new urban development law.

#### (2) Status of the Achievement of the Effect Indicators

The number of community organizations involved in *ger* area development was set as an effective indicator. The baseline data was zero and the target was supposed to be seven. However, many community organizations involved in *ger* area development existed at the time of the appraisal. Since the baseline data for this indicator is not appropriate, the effect cannot be evaluated by this indicator.

### 3.3.2 Effects in the Financial Aspects

After completion of the IMF program, Mongolia's fiscal expenditure demonstrated an upward trend to the fiscal year 2012 in the context of an economic boom. Therefore, the budget for health and education experienced a comparatively steady increase as seen above.

The FSL which was stipulated with the assistance of the IMF program has been applied to the budget since fiscal year 2013. In the 2013 budget, social welfare from the Human Development Fund decreased 67%, to MNT 284 billion from MNT 866 billion in 2012.

There was a revival of CMP targeting all children, but cash transfer for the nation as a whole was abolished; therefore social welfare widely decreased.

In the second half of the fiscal year, the general budget for the fiscal year 2013 demonstrated a deficiency equivalent to 13% of the initial budget due to fiscal expansion as well as to a more optimistic revenue outlook. Then expenditure was cut by 17% by the supplementary budget of November 2013. As a result, the “official” deficit was kept below 2% of GDP as stipulated in the FSL. The possibility cannot be denied that some policy reform areas where progress were not good under the Program may have been affected by the budget cut. According to the World Bank, off-budget expenditure through the Development Bank of Mongolia was approximately USD one billion and it was estimated that the fiscal deficit, including the off budget items, was around 9% of GDP. The fiscal deficit was made up for by government bond issue. However, there are growing concerns about a further increase in the deficit as the redemption period is due in 2017.

### 3.3.3 Impacts of the Budget Support

The greatest impact of the Program is that reform efforts have been able to continue, albeit at a slow pace, due to government legislation completing policy actions even when the government has changed or ministries have been reorganized. Another comment from the Institute of Educational Research was that the Program led the government to make efforts towards policy reforms where there had been no progress over the last decades.

### 3.3.4 Other Impacts

#### (1) Impacts on Natural Environment

No negative impacts on the natural environment through the Program were observed.

#### (2) Land Acquisition and Resettlement

No land acquisition and resettlement were required for the Program.

In light of the above, each Policy Measure was completed and the appraisal process by JICA was properly carried out for each. Therefore, the effectiveness of the Program is high. As far as impact of the Program is concerned, however, some reform areas are not necessarily making as much progress as expected. Furthermore, it will be necessary to observe whether the desired effects are produced amid concerns that the financial situation is deteriorating.

## 3.4 Sustainability

### 3.4.1 Institutional Aspects of Operation and Maintenance

Since the ministries were reorganized after the 2012 election, the operation structure changed from the program implementation period. The aid coordination function was

transferred to newly established Ministry of Economy and Development by the Ministry of Finance, the executing agency of the Program. Later, in October 2014, the Cabinet was reshuffled. The Ministry of Economy and Development was again integrated with the Ministry of Finance and the operation structure returned to that of the program implementation period.

The Ministry of Social Welfare and Labor became the Ministry of Population Development and Social Protection. The Ministry of Population Development and the Social Protection Social Protection Policy and Coordination Department formulate the policies of each policy reform area in the social welfare sector and the Social Welfare Service Agency and Social Insurance Agency are in charge of implementation of the Program.

The Ministry of Health became the Ministry of Health and Sports after the reorganization of government ministries. In spite of these changes, however, the same departments are in charge as the ones at the time of the program implementation. However, since ministers changed after the cabinet reshuffle in 2014 and personnel also was revamped, there is concern about a smooth handover. As far as targeting of the beneficiaries concerned, the Ministry of Population Development and Social Protection is in charge.

The Ministry of Education and Science also changed into the Ministry of Education, Culture and Science and the personnel was revamped. However, as the Program had already reached the implementation stage, the reorganization of government ministries had little direct impact. As for the education sector, the National Institute of Educational Research, the Teacher Training Center and the Education Evaluation Center, which were established or reactivated in relation to the Program, are in charge of the implementation of policy reforms.

The Transport Department was separate from the Ministry of Roads, Transport, Construction and Urban Development but became the Ministry of Construction and Urban Development. Although the Ministry of Construction and Urban Development is in charge of development of the Master Plan for urban development at a national level, the departments concerned in each municipal government are in charge of concrete plans in each city. The Strategy Policy and Planning Department of the Ulaanbaatar Municipal Office is in charge of the Master Plan of Ulaanbaatar City.

As mentioned above, although the ministries have been reorganized, departments corresponding to departments at the time of program implementation continue to exist and continue to make efforts for policy reform even after ministerial reorganization. Each ministry ensures the necessary number of staff, including experts and engineers. Furthermore, ministries secure expertise by coordinating with related municipalities or specialized agencies. However, the research that JICA conducted before the implementation of phase II of the Program indicated that the implementing capacity was low in the Urban Development Sector. It is expected that JICA will continue to provide assistance with capacity development depending on the sector.

Table 14: Implementation Structure of Policy Reforms in Each Sector

Policy Reform Area	Implementing Agency (During program implementation)	Implementation Agency (At the time of Ex-post Evaluation)
<b>Social welfare</b>		
Social welfare reform to improve efficiency and protect the poor.	Ministry of Social Welfare and Labor (MSWL)	Ministry of Population Development and Social Protection (MPDSP) Social protection policy and coordination Dep. Social welfare service agency
Reduction of hospital admissions through expansion of the drug discount system under the state health insurance scheme.	MSWL	MPDSP Social protection policy and coordination Dep. Social insurance agency
Target subsidies for state health insurance contribution through proxy means testing.	MSWL	MPDSP Social protection policy and coordination Dep. Social welfare service agency Social insurance agency
<b>Health</b>		
Establishment of an Emergency Mechanism to ensure the supply of essential vaccines, medicines and other medical supplies in case of acute shortages.	Ministry of Health (MOH)	Ministry of Health and Sports (MOHS) Policy implementation and coordination Dep.
Protection of children against malnutrition by expanding the coverage of household micronutrients fortification.	MOH	MOHS Policy implementation and coordination Dep.  (In addition, there are 10 nutrition experts in the National Center for Public Health. One member of staff in charge of the nutrition sector is allocated in each prefecture.)
Reduction of health care out-of-pocket expenses for the poor through the medicard program for the poor.	MOH and MSWL	MOHS Policy implementation and coordination Dep. Health service Division (targeting: MPDSP)
<b>Education</b>		
Improvement in the targeting of subsidies for secondary level textbooks, including to the poor.	Ministry of Education, Culture and Science (MOECS)	National Institute of Educational Research
Enhancement of in-service teachers' training system with expansion of new teaching methods which supports children's development (including in <i>ger</i> areas).	MOECS	Teacher Training Center
Evaluation system for teachers is consistent with new educational standards.	MOECS	Education Evaluation Center
<b>Urban development</b>		
Revision of the Ulaanbaatar Master Plan, including <i>ger</i> areas, and prioritization of programs, to ensure basic services and improved living conditions.	Ministry of Roads, Transport, Construction and Urban Development (MRTCUD) Ulaanbaatar Municipal Office	Ministry of Construction and Urban Development (MUCD) Urban Development and Land Affairs Policy Ulaanbaatar Municipal Office Strategy Policy and Planning Dep.
Capacity building and development of guidelines for the improvement of living conditions in <i>ger</i> areas.	Ulaanbaatar Municipal Office	Ulaanbaatar Municipal Office Strategy Policy and Planning Dep.

Source: Answers to the questionnaire for the ex-post evaluation



### 3.4.2 Sustainability of Effectiveness

As for general fiscal management, the FSL has had a certain effect. However, comprehensive national finance cannot be seen in financing and investing in public projects which have a low feasibility rating through the Development Bank of Mongolia and this contributes to undermining the effectiveness of the FSL. In addition, the government has implemented economic stimulus measures with massive public spending over the last few years but tax revenues are lower than initially envisaged at the recessionary phase. This aggravates the financial situation. This financial deterioration prevents the implementation of policy reforms in each sector and casts a shadow over the emergence of effectiveness. Some of the policy reform areas could not be implemented in 2014 due to the financial difficulties at the time of the ex-post evaluation.

The government of Mongolia again faces critical financial difficulties. The government intends to return to FSL in the 2015 supplementary budget and will start changing direction to advance policy reforms by ensuring necessary budgets through sound fiscal management.

Although there is concern about a smooth handover in promoting reforms, the structure for reform generally exists. On the other hand, the financial difficulties of the last two years have prevented implementation of the reforms in each sector and have cast a shadow over the emergence of effectiveness. As pointed out in the survey before the Phase II, mentioned above, there are some concerns about implementation capacity in the urban development sector. Therefore sustainability of the program effects is fair.

## **4. Conclusion, Lessons Learned and Recommendations**

### 4.1 Conclusion

The objective of the Program was to establish a mechanism for ensuring and strengthening basic social services for the poor while restraining public expenditures, of which social welfare expenditures had been inefficiently allocated, by targeting the poor as beneficiaries as well as addressing the financial crisis. This objective was consistent with the funding needs and the development needs of Mongolia as well as with Mongolia's development plan and Japan's ODA policy. It was also relevant from the point of view of advantage of scale and efficiency of aid that JICA provided Mongolia with budget support together with other donors under the IMF program. The government of Mongolia was proactive in preparing the policy matrix which was compiled of actions to be taken by the Mongolian government. The preparation process of the matrix was appropriate. Therefore, its relevance is high. All the Policy Measures were completed and the verification process and appraisal by JICA were carried out properly. Therefore, effectiveness of the Program is high. As far as impact of the Program is concerned, however, there has not necessarily been as much progress as expected in some reform areas. Furthermore, it is necessary to observe whether or not the desired effects are to be produced

amid concerns that the financial situation is deteriorating. Although there is a system for implementing reforms, the severe financial situation has hindered their implementation in all sectors and this has cast a shadow over the effects. Moreover, there are some concerns about the capacity of the Mongolian government for policy implementation; therefore the sustainability of the program effects is fair.

## 4.2 Recommendations

### 4.2.1 Recommendations to the Executing Agency

None.

### 4.2.2 Recommendations to JICA

None.

## 4.3 Lessons Learned

The purpose of the Program was primarily to avoid financial collapse or default (short term objective) but at the same time to improve public fiscal management in order to avoid a similar situation in the future (mid- and/or long-term objective). For the short-term objective, disbursement had to be carried out in a relatively short term so logically the program period<sup>14</sup> is short. Therefore, having laid part of the groundwork for the mid- and/or long term objective (such as development of an administrative system) is deemed feasible as part of the scope within the program period. Under the present circumstances, the process from implementation of the administrative system after the Program in order to increase the impact of the Program lies in the hands of the recipient government. For the sustainability of the reform effects, policy discussions with the recipient government should be continued after the program period in order that the donors could follow up the program effects as they develop. Policy discussion might not be enforceable for the recipient government to promote policy reforms. However, it remains possible to understand how the government intends to deal with the development agenda and/or policy issues addressed under the general budget assistance program. When the government addresses the same agenda but through a different approach, it is desirable that adjunctive and supportive measures for the reforms be provided in a flexible manner as far as JICA's assistance policies allow.

---

<sup>14</sup> In a project type loan, the project period is often set out from the signing of the Loan Agreement to completion of construction or the end of defect liability period. But in the case of general budget support the program period can be defined as the term from the preparation of the policy matrix to completion of the policy measures including a certain period of monitoring after disbursement (one year in the case of the Program).