

Mongolia

FY2019 Ex-Post Evaluation of Japanese ODA Loan

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

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0. Summary

This project was implemented to strengthen small and medium-scaled enterprises (SMEs) and the financial sector and to reduce emissions of environmental pollutants by the provision of long-term financing to SMEs, including projects for environmental protection, thereby contributing to the sustainable growth of Mongolia.

This project was consistent with the policies to promote SMEs and to protect the environment in Mongolia at the time of project appraisal as well as ex-post evaluation. Since it was also consistent with the needs of SMEs in Mongolia with few opportunities to access low interest, long-term loans, as well as with Japan’s development cooperation policies towards Mongolia at the time of project appraisal, the relevance of this project is high. Although the project’s cost remained within the budget, the project period exceeded the planned time; thus, the efficiency of the project is fair.

By implementing this project, the promotion of SMEs in Mongolia, strengthening the financial sector by dissemination of know-how regarding long-term credit, and reduction of emissions of environment pollutants were observed. 596 sub-projects¹ were funded including sub-loans from the revolving fund after the completion of the project, which had a high employment-generation effect. The sub-loans not only led to business development of each SME which took out sub-loan, but also each sub-project contributed to growth of export industries, import substitution by domestic production and improvement of processing and storage, improvement of workers’ safety, industrial development and improvement of medical services in the countryside thereby contributed on avoiding overdependence on the mining industry and leading Mongolia to a path for sustainable growth. Therefore, the effectiveness and impacts of the project are high.

No major problems were observed in the institutional/organizational, technical, or financial aspects, nor in the current status of maintenance and operation. Therefore, the sustainability of the project’s effect is high.

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

¹ In this report, ‘sub-project’ refers to the projects of each SME that received funds in this project, and ‘sub-loan’ refers to the funding to those sub-projects.

1. Project Description



Project Location



Cashmere factory built by a sub-loan

1.1 Background

Mongolia is blessed with rich mineral resources, and its economic structure is heavily dependent on the mining sector. Therefore, it is vulnerable to commodity market fluctuations and economic climates of other countries.

Since the 1990s, many private companies have been founded in the process of transitioning to a market economy, most of which are SMEs. When the domestic economy began to slump due to the impact of global financial crisis starting in 2008, credit to the private sector became sluggish due to rising credit risk. There was an urgent need to provide support that contributes to the development of SMEs from the perspective of expanding the employment base through diversification of domestic industries and maintaining balanced and sustainable growth.

Since commercial banks in Mongolia accounted for 96% of total assets of the financial sector as of 2009, while trading on the securities markets was limited, companies relied mostly on bank loans for financing. When the international price of copper, a major export product, plunged due to the financial crisis mentioned above, banks' assets deteriorated, and stabilization and strengthening the financial sector was necessary.

In the environmental sector, laws such as the Environmental Protection Act and the Environmental Impact Assessment Act were developed after the transitioning to a market-based system. However, air pollution became serious due to winter heating using coal as an energy source and the increase of economic activities. The air pollution problem was also one of the issues to be solved immediately, but the financing system for environmental measures was not established.

JICA implemented ODA loan “Two-Step-Loan Project for Small and Medium-Scaled Enterprise Development and Environmental Protection Phase I (2006-2011; TSL(I)) which provided sub-loans to 125 projects,² and collected repayment of principal and interest in a

² Ex-post evaluation report on Mongolia, *Two-Step-Loan Project for Small and Medium-Scaled Enterprise Development and Environmental Protection* (FY2013).

revolving fund account and used for new sub-loans. Based on that achievement, meeting the further financing needs of SMEs was required.

1.2 Project Outline

The objective of this project is to strengthen SMEs and the financial sector and reduce emissions of environment pollutants by providing long-term financing to SMEs, including projects for environmental protection, thereby contributing to the sustainable growth of Mongolia.

Loan Approved Amount/ Disbursed Amount	5,000 million JPY/4,995 million JPY
Exchange of Notes Date /Loan Agreement Signing Date	November 2010/November 2010
Terms and Conditions	Interest Rate: main portion 0.65%, consulting services 0.01% Repayment Period 40 years (10 years) (Grace Period): Conditions for Procurement: General untied
Borrower/ Executing Agency	The Government of Mongolia/Ministry of Finance (MOF)
Project Completion	February 2015
Target Area	Across Mongolia
Main Contractor (More than 1 billion JPY)	N/A
Main Consultant (More than 100 million JPY)	Koei Research & Consulting Inc. (Japan)
Related Studies (Feasibility studies, etc.)	<ul style="list-style-type: none"> • Special Assistance for Project Implementation (SAPI) (July 2009) • SAPI (August 2013-June 2014)
Related Project	<p>ODA Loan:</p> <ul style="list-style-type: none"> • Two-Step-Loan Project for Small and Medium-Scaled Enterprises Development and Environmental Protection Phase I (2006-2011) <p>Technical Cooperation:</p> <ul style="list-style-type: none"> • Mongolia-Japan Human Resources Development Cooperation Center Project Phase II (2007-2012), Project

	<p>for Capacity Development of Business Persons through Mongolia–Japan Center for Human Resources Development (2012-2015) (hereafter the Japan Center Project)</p> <ul style="list-style-type: none"> • Capacity Development Project for Air Pollution Control in Ulaanbaatar City Phase I (2010-2013), Phase II (2013-2017) (hereafter Air Pollution T/C) <p>Other aid institutions: Agriculture and Rural Development Project, Asian Development Bank (ADB) (2008–2020)</p>
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2. Outline of the Evaluation Study

2.1 External Evaluator

Nobuko Fujita, Foundation for Advanced Studies on International Development

2.2 Duration of the Evaluation Study

This ex-post evaluation study was conducted as follows.

Duration of the Study: August 2019-October 2020

Duration of the Field Study: November 11-27, 2019 (First field study)

May 27-June 30, 2020 (Second field study, implemented by local consultant)

2.3 Constraints during the Evaluation Study

The second field study was scheduled for March 2020, but due to travel restrictions caused by the worldwide spread of COVID-19, it was conducted remotely using an online conference system, etc. At the site, a local consultant (Narmandakh Sandagsuren, Mikeny Co. Ltd), making close contact with the external evaluator, conducted information collection through interviews and site visits based on the questionnaire created by the external evaluator. The quality of information was secured with the cooperation of local stakeholders.

3. Results of the Evaluation (Overall Rating: A³)

3.1 Relevance (Rating: ③⁴)

3.1.1 Consistency with the Development Plan of Mongolia

At the time of appraisal, in the *Millennium Development Goals-based Comprehensive National Development Strategy of Mongolia* (2008), the promotion of SMEs, especially the promotion of provincial SMEs, was mentioned as an important issue. Furthermore, as part of the

³ A: Highly satisfactory, B: Satisfactory, C: Partially satisfactory, D: Unsatisfactory

⁴ ③: High, ②: Fair, ①: Low

macroeconomic policy, emphasis was placed on strengthening banks and financial services. Environmental degradation and air pollution problems were also pointed out, and investment in pollution prevention was emphasized.⁵

Likewise, in the *Action Plan of the Government* (2008), one of the five goals was “to develop SMEs that utilize the mining industry and domestic resources,” and it identifies human resource development, financial support, and support for provincial SMEs. The plan also set the goal of reducing air pollution in Ulaanbaatar.⁶

Similarly, at the time of the ex-post evaluation, according to the *Mongolia Sustainable Development Vision 2030*, to promote employment that achieves social equality through inclusive growth, financial support for SMEs was clarified and the SME Development Fund will be expanded to 300 billion MNT⁷ by 2030.⁸ The *Vision 2030* also emphasized environmental protection and aims to eliminate air pollution in Ulaanbaatar by 2020.

Furthermore, in 2019, a *National Program for SME Development* was formulated, aiming to increase production, enhance competitiveness, and increase employment via development of legislation for SMEs and improving their access to loans. With the revision of the *SME law* in June 2019, SMEs became eligible to receive various tax incentives.

This project, which aims to provide long-term funds to SMEs (including environmental protection sub-projects) to foster and strengthen SMEs and the financial sector and control the emission of environmental pollutants, is consistent with the policies at the time of appraisal and ex-post evaluation.

3.1.2 Consistency with the Development Needs of Mongolia

At the time of appraisal in 2008, SMEs (50 employees or fewer) accounted for 96.7% of registered companies, but loans from banks were mainly short-term (within 1 year) and interest rates were high. For SMEs, long-term and low-interest financing was a challenge.⁹

At the time of the ex-post evaluation (Q3 2019), SMEs accounted for 97.3% of registered companies.¹⁰ As a low-interest and long-term loan, ADB’s Agriculture and Rural Development Project exists, but the sector is limited to agriculture and livestock. The government-funded SME Development Fund did not fully meet the demand of SMEs because the scale of the fund

⁵ Government of Mongolia (2008), *Millennium Development Goals–Based Comprehensive National Development Strategy of Mongolia*.”

⁶ Government of Mongolia (2008), *The Action Plan of the Government for 2008-2012*.

⁷ Mongol tugrik. 1 MNT \approx 0.051 JPY (2016 average). <https://data.imf.org> (retrieved on May 26, 2020. The source for the exchange rate is the same throughout the report.)

⁸ State Great Hural of Mongolia (2016), “Mongolia Sustainable Development Vision 2030.”

⁹ Koei Research & Consulting Inc. (2009), *Final Report of the Special Assistance for Project Implementation for Two-Step-Loan Project for Small and Medium-Scaled Enterprise Development and Environmental Protection* (Summary in Japanese). The policy interest rate was 11% at the start of the project. Thereafter, through November 2019, it ranged from 11.5 to 15.0%; as of November 2019, the policy rate was 11%, and the market rate was more than 14% per annum. (Bank of Mongolia, accessed May 13, 2020, <https://www.mongolbank.mn/eng/dblistmongolbankrate.aspx>, and hearings at the PFIs.)

¹⁰ National Statistical Office of Mongolia, accessed November 26, 2019, <http://www.en.nso.mn/>.

was not stable each year since its source is the government's budget. In addition, there was a problem with transparency in its loan appraisal process.¹¹

In addition, Mongolia's private banks have a structural problem that limits their ability to provide loans for more than 1 year, because most deposits (i.e., the source of loans) are short term, mostly less than 1 year. Regarding loans to SMEs with insufficient collateral assets, public funds such as those from international organizations are the main source, which was the case at the time of both project appraisal and ex-post evaluation.

At the time of the appraisal, Ulaanbaatar City had serious air pollution, especially in winter, due to topographical features, coal burning of gel, coal-fired power plants, automobile exhaust, etc. The air pollution in Ulaanbaatar City at the time of the ex-post evaluation was slightly improved due to the policy of prohibiting the import of raw coal into the city enforced in 2019 and the spread of improved fuel.¹² However, this project was the only loan in local currency that was given preferential treatment for environmental pollution control projects.¹³

From the above, it can be said that this project is consistent with the development needs of Mongolia at the time of appraisal and ex-post evaluation.

3.1.3 Consistency with Japan's ODA Policy

According to the *Country Assistance Program for Mongolia* (2004) document, support for institution building necessary for promoting a market economy is a priority area. Strengthening the financial system and the management capacity of SMEs are mentioned as urgent issues. Also, with regard to "support for environmental protection," support for Ulaanbaatar's environmental measures is listed, and therefore this project is consistent with Japan's assistance policy at the time of appraisal.

In light of the above, this project is highly relevant to Mongolia's development plan and development needs, as well as to Japan's ODA policy. Therefore, its relevance is high.

3.2 Efficiency (Rating: ②)

3.2.1 Project Outputs

(1) Structure of the Two-Step-Loan (TSL) Project

In this project, the ODA loan is funded to the participating financial institutions (PFIs) by the Mongolian government, and PFIs provide sub-loans to SMEs as long-term, low-interest

¹¹ Hearings at the PFIs, companies using TSLs, and executing agency.

¹² In addition to banning raw coal from being brought into the city, improved fuels at the same price as raw coal were supplied by the state-run plant, and other commercially available fuels such as briquettes were allowed to be distributed only in products that meet government standards. As a result, in winter 2019, PM10 and PM2.5 significantly improved in the city's air pollution compared to the previous year. On the other hand, SO₂ and NO₂ have increased year-on-year. (Socio-Economic Situation of Mongolia, Dec. 2019 - Mar. 2020).

¹³ Hearings at the PFIs, companies using TSLs, and executing agency.

funds in US dollars (US\$) or MNT (Fig. 1). Each sub-loan application is appraised by a PFI and examined by the Project Implementation Unit (PIU), which consists of MOF officials-in-charge and the consultants. Then, the Counterpart Steering Committee (CSC) organized by the MOF¹⁴ performs the final review. Through PFIs, repayments from SMEs enter into a revolving fund managed by the MOF, which is used as a source for further sub-loans.

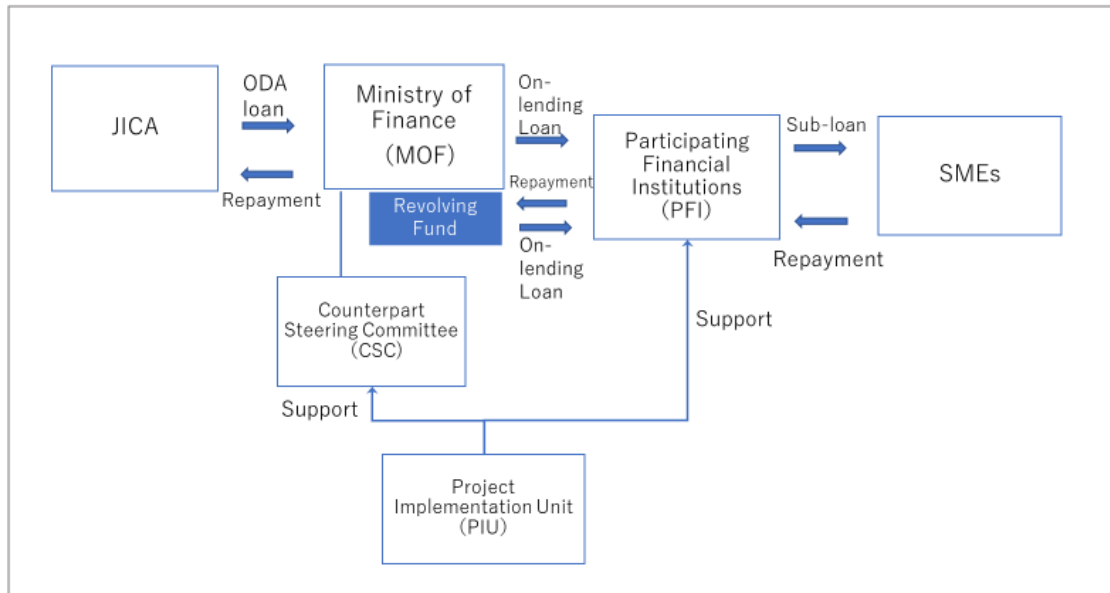


Fig. 1 The structure of the Two-Step-Loan Project

(2) Number and amount of actual sub-loans

The number and the amount of sub-loans during the project implementation period are as follows.¹⁵

- Number of SMEs sub-projects: 245
- Number of environmental protection sub-projects: 38
- Amount of sub-loans: 4,640 million JPY (US\$3.38 million and 78 billion MNT)¹⁶

(3) Consulting Services¹⁷

i) Project implementation/support for capacity building

- Support for the CSC: PIU scrutinized the sub-loan applications that had been appraised by each PFI, submitted an application for approval to the CSC, and assisted

¹⁴ Composed of members from the MOF; Ministry of Environment and Tourism; Ministry of Food, Agriculture and Light Industry; Bank of Mongolia (BOM); the Mongolian Bankers Association; and the Mongolian National Chamber of Commerce and Industry. (For detail, see 3.4.1, Institutional/Organizational Aspects of the Operations and Maintenance, Table 7).

¹⁵ Up to February 23, 2015 for both the number and the amount of sub-loans. Documents provided by PIU.

¹⁶ *Project Completion Report* (2015).

¹⁷ *Ibid.*

with the loan-execution request for the approved project. CSC held 40 committee meetings during the project period.

- Support of PFIs: PIU explained the objective and procedure of TSL to PFIs selected by the MOF, explained the method of long-term loan appraisal, and supported the initial sub-loan appraisal and process.
- Guidance for SMEs: PIU introduced the TSL project at seminars and events held by PFIs and other organizations and conducted training on loan application.
- Organizing seminars and training sessions for SMEs and PFIs: 181 in total, with 4,224 participants in all.¹⁸

(4) Terms and conditions of the sub-loans

i) TSL for SMEs

- Target industries: All industries except entertainment, mining, real estate, military related, consumer finance, etc.¹⁹
- Target companies: Companies defined by the SME Law (enacted in 2007)²⁰
- Lending period: 3 to 10 years (grace period: 0 to 3 years)
- Sub-loan amount: US\$10,000 - 600,000
- Currency: MNT or US dollars
- Interest rate: Set by the PFIs by adding the spread, based on the margin and end user credit risk, to the on-lending interest rate from the MOF. Regarding this on-lending loan interest rate, the MOF set the PFI margin at 4% in MNT and 3.6% in US dollars in response to the opinion of the State Great Hural (Parliament) of Mongolia that the government's low-interest loan program should provide fair and even terms to borrowers. The on-lending interest rate was reviewed every six months. None of the PFIs had any particular complaints.²¹ Table 1 shows the on-lending and sub-loan interest rates for each period.

¹⁸ *Project Completion Report* (2015).

¹⁹ Project Memorandum on TSL (II) between JICA and Executing Agency (Feb. 4, 2011).

²⁰ The definition of SMEs in the SME Law of 2007 was a manufacturing industry with 199 or fewer employees and annual sales of 1.5 billion MNT or less, and a service industry with 49 or fewer employees and 1 billion MNT or less (JICA et al. (2018) 3-1). The Act was amended in 2019 to include no more than 199 employees and annual sales of 2.5 billion MNT or less in both manufacturing and service industries at the time of the ex-post evaluation (SME Support Act, amended in June 2019).

²¹ Hearings at the PFIs.

Table 1 On-lending and sub-loan interest rates (%)

Period		On-lending		Sub-loan	
Year	Month	US\$	MNT	US\$	MNT
2011	7-12	1.40	4.00	5.00	8.00
2012	1-6	1.80	4.00	5.40	8.00
	7-12	1.70	4.00	5.30	8.00
2013	1-6	1.51	4.00	5.11	8.00
	7-12	1.40	3.00	5.00	7.00
2014	1-6	1.35	3.00	4.95	7.00
	7-12	1.33	3.00	4.93	7.00
2015	1-6	1.33	3.00	4.93	7.00

Source: Prepared by the evaluator from the document provided by PIU

ii) Environmental protection TSL

- Target companies: SMEs engaged in air-quality-conservation projects²²
- Loan terms: Same as TSL for SMEs, except that there is no upper limit on sub-loan amounts.

(5) Breakdown of companies using TSLs

The breakdown of companies using TSLs is as follows.²³

- By region: 58% in Ulaanbaatar and 42% in rural areas, with loans being provided in all 21 provinces (Fig. 2).
- By company size: More than half of companies have 10 employees or fewer (Fig. 3). By annual sales, SMEs with sales less than 100 million MNT (about 6.11 million JPY²⁴) accounted for 40% of companies using TSLs.
- By loan amount: 30% of sub-loans are less than 200 million MNT (about 8 million JPY), and 74% are less than 600 million MNT (about 24 million JPY).
- By sector: The manufacturing industry accounts for 64% of companies using TSLs, the service industry accounts for 19%, and agriculture and others for 17% (Fig. 4).
- By use: Machinery and equipment account for 62% of TSLs, and construction of factories and warehouses accounts for 30% (Fig. 5).

²² The main focus was on air pollution control projects, which fell into three categories: i) heat-only boiler (HOB) and stove upgrades; ii) fossil fuels (e.g., coal briquettes and coke production); and iii) energy efficiency and renewable energy use.

²³ *Project Completion Report (2015)*, JICA et al. (2018), *Two-Step-Loan Project for Small and Medium-Scale Enterprises Development and Environmental Protection (Support for Establishment of Finance Scheme for Small and Medium Enterprises) in Mongolia: Final Report*, pp. 7–15.

²⁴ Converted at 1 MNT = 0.0611 JPY (average exchange rate from November 2010 to February 2015).

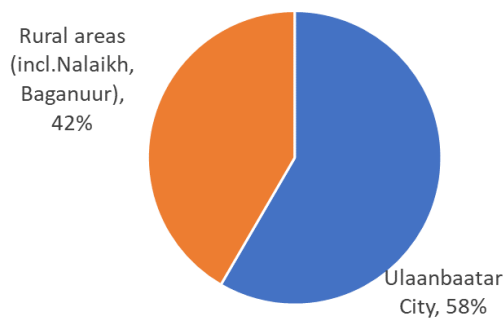


Fig. 2 Breakdown of sub-loan companies by region

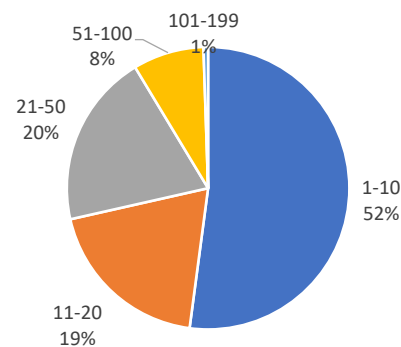


Fig. 3 Breakdown of sub-loan companies by number of employees

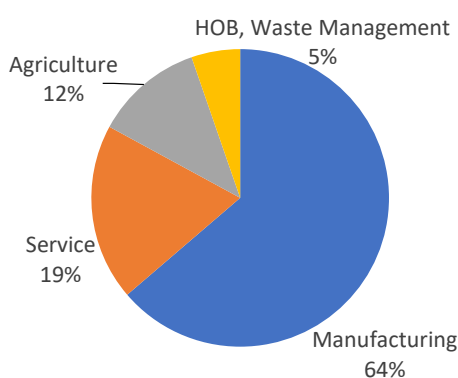


Fig. 4 Breakdown of sub-loan companies by sector

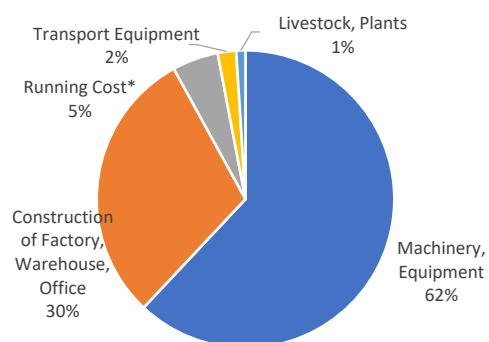


Fig. 5 Breakdown of sub-loan by use

Note: From the start of Phase II to 6/30/2015. *Running cost was restricted within 20% of the loan amount.
 Source: Prepared by the evaluator from *Project Completion Report* (2015) and other documents.

(6) PFIs

At the time of the appraisal, three banks – the Trade and Development Bank of Mongolia (TDB), Khan Bank, and Xac Bank – were selected as PFIs, but other banks that met the MOF selection criteria also submitted expressions of interest. In order to improve user convenience by increasing the number of PFIs, Golomt Bank and Capital Bank were accredited as PFIs in December 2011, and Ulaanbaatar City Bank was also accredited in August 2012.²⁵

The number of loans and the ratio of loan amounts for each bank are shown in Table 2 below.

²⁵ The original three banks approved in July 2011 had 666 total branches, and the additional three banks had 183 branches (as of Q3 2013). JICA/Koei Research & Consulting Inc. (2014), *Special Assistance for Project Implementation (SAPI) for Two-Step-Loan Project for Small and Medium-Scaled Enterprise Development and Environmental Protection (II), Mongolia*, p. 9-3.

Table 2 The number of loans and the ratio of loan amount for each PFI

	PFI	Number of sub-loans				Amount of sub-loans
		SMEs Support	Environmental Protection	Total	Ratio (%)	Ratio (%)
1	Khan Bank	126	12	138	28	27
2	TDB	104	11	115	24	26
3	Golomt Bank	80	18	98	20	19
4	Xac Bank	67	7	74	15	13
5	UB City Bank	10	2	12	3	3
6	Capital Bank	42	8	50	10	12
	Total	429	58	487	100	100

Note: 2011 - November 2019. Source: Prepared by the evaluator from document provided by PIU.

3.2.2 Project Inputs

(For details, see Comparison of the Original and Actual Scope of the Project on the last page of the report.)

3.2.2.1 Project Cost

The planned project cost at the time of appraisal of this project was 5,484 million JPY (of which 5,000 million JPY was covered by the Japanese ODA loan and 484 million JPY was covered by the Mongolian side). The actual amount was 5,155 million JPY (of which 4,995 million JPY²⁶ was covered by the ODA loan, 160 million JPY was from the Mongolian side, and no data exist on general administrative expenses since they were disbursed from the MOF's regular budget). It was within the plan (94% of the plan).

3.2.2.2 Project Period

The project period planned at the time of appraisal was from November 2010 (when the L/A was signed) to June 2014, and the actual period was from November 2010 to February 2015.²⁷ Compared to the planned 44 months, the actual period was 52 months, exceeding the plan (118% of the plan).

The consulting service was planned from June 2011 to June 2015, but after project completion, it was extended to May 2017 by utilizing the contingencies.

The actual period exceeded the planned period because it took time for each PFI to conduct public relations activities and find sub-loan projects for environmental protection sub-projects. In Phase I, the criteria for selecting environmental protection projects were unclear, and the system was not fully utilized. Therefore, in Phase II, the target was focused on sub-loans for air pollution control, and the TSL project requested that SMEs specify the environmental improvement effects numerically with loan application. On the other hand, for borrowers, the

²⁶ Documents provided by JICA.

²⁷ Project completion was defined as "the disbursement for the final TSL," which was June 2014 for SMEs and February 2015 for environmental protection projects.

conditions were the same as for SME support, except without an upper limit on the loan amount, so the application for SME support and its appraisal proceeded. The PIU cooperated with PFIs to hold events as public relations activities for TSLs targeted for environmental protection projects and solicited the participating companies. As a result, loans were generally provided according to the fund allocation shown in the L/A (actual 15%, L/A 18%).²⁸

3.2.3 Results of Calculations for Internal Rates of Return (Reference only)

Neither the financial internal rate of return (FIRR) nor the economic internal rate of return (EIRR) was calculated at the time of the ex-post evaluation because the projects that utilized sub-loan could not be identified at the time of the appraisal.

From the above, although the project cost was within the plan, the project period exceeded the plan. Therefore, the project's efficiency is fair.

3.3 Effectiveness and Impacts²⁹ (Rating: ③)

3.3.1 Effectiveness

3.3.1.1 Quantitative Effects (Operation and Effect Indicators)

Regarding the quantitative effects, i) the non-performing loan (NPL) ratio, ii) the target SMEs' sales growth rate, and iii) the operating profit growth rate were listed as operation indicators (Table 3).

Regarding i) the NPL (overdue 90 days or more) ratio, two years after the project's completion, the average of the six PFIs was below the average for the entire banking sector, achieving the target. Even at the time of the ex-post evaluation, the average of all of the PFIs excluding Capital Bank (amount of NPL unknown) was 7.9%, which is below the banking sector average of 11.0%.³⁰ For reference, the total number of NPLs among the six banks, including Capital Bank, was 39 out of 487 sub-loans, or 8.0% (each PFI's NPL ratio and number/ratio of NPLs to TSLs are shown in Table 4). Repayment of on-lending loans from the PFIs is on schedule for all PFIs, excluding Capital Bank.

No data exists on the sales and operating profit growth rates of the target SMEs two years after the project's completion. However, at the time of the ex-post evaluation, out of the 76 companies, total of 33 companies which the evaluation team visited and 43 companies which responded to the questionnaire, sales increased at 73 companies, and operating profits increased at 74 companies, both significantly (Figs. 6 and 7).

²⁸ Hearing at the PIU.

²⁹ The sub-rating for effectiveness is to be listed with the consideration of impacts.

³⁰ Concerning Capital Bank, see 3.4.1 Institutional/Organizational Aspects of Operation and Maintenance.

Table 3 Operation Indicators

Indicator	Baseline (2010)	Target (2 years after the project's completion)	Actual (2 years after the project's completion) Feb. 2017	Actual (at the time of the ex-post evaluation) Nov. 2019
i) NPL ratio (%)	• PFI average: 3.7%* ¹ (Financial Sector average: 8%* ¹)	Each PFI's NPL ratio is below the financial sector average.	• All PFIs: 5.3%* ² (Financial sector average: 8.2%* ²)	• Average of 5 PFIs: 7.9% (Average of financial sector: 11.0%* ³) (Note: NPL for the TSLs was 4.9% for all the PFIs excluding Capital Bank. See Table 4.)
ii) Sales growth rate of the target SMEs (%)	-	Increased from the time of sub-loan approval (% is positive)	N/A	• Increased for 73 SMEs among 76. See Figure 6. ³¹
iii) Operating profit growth rate of the target SMEs (%)	-	Increased from the time of sub-loan approval (% is positive)	N/A	• Increased for 74 out of 76 SMEs. See Figure 7. ³²

Source: *¹ Annual Report 2010 of each PFI (TDB: 4.1%, UB City Bank: 2.0%, Golomt Bank: 7.0%, Xac Bank: 1.5%, Khan Bank and Capital Bank: N/A. *²JICA et al. (2018), pp. 7-29. *³Central Bank of Mongolia website (Retrieved on November 22, 2019).

Table 4 Each PFI's NPL ratio and number/ratio of NPLs to TSLs

	PFI	NPL ratio of each PFI	Comparison to the average of banking sector (11%)	Number of NPLs/sub-loans to TSLs	NPL ratio of TSLs (amount-base) (%)
1	Khan Bank	5.95	Low	4/138	2.70
2	TDB	13.70	High	5/115	0.05
3	Golomt Bank	7.00	Low	3/98	12.00
4	Xac Bank	5.90	Low	8/73	9.60
5	UB city Bank	7.00	Low	0/12	0.00
6	Capital Bank	N/A	N/A	19/50	N/A
		Avg. of 5 PFIs: 7.91	Avg. of 5 PFIs: Low	6 PFIs total: 39/486	Avg. of 5 PFIs: 4.87

Note: 1-5: As of Oct. 31, 2019. 6: As of April 8, 2019. Source: 1-5: PFIs' hearings, 6: PIU, BOM.

³¹ The average specific percentage increase reported by the 28 companies that responded was 244%. The actual increase was higher because we excluded the case of starting a business from the calculation.

³² The average of the 26 companies that responded with specific increases was 444%. The actual increase was higher because we excluded the case of starting a business from the calculation.

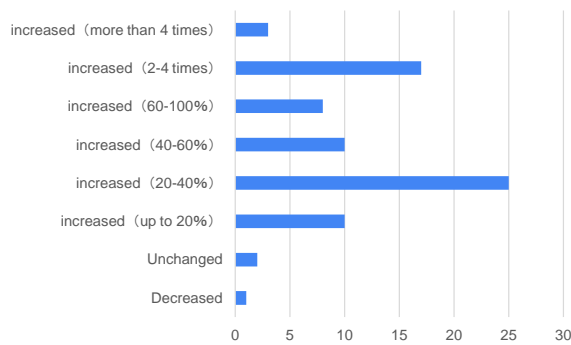


Fig. 6 Change in sales

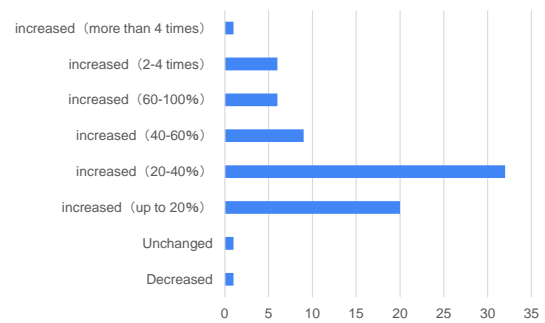


Fig. 7 Change in profit

As effect indicators, iv) increased rate of employment among the target SMEs; v) long-term credit ratio (3 years or more); vi) coal consumption of the target companies and vii) the sub-borrowers' SO₂, NO_x, CO, CO₂, and dust emissions were listed (Table 5).

The number of employees among the sub-borrowers increased from the time of sub-loan approval by 95.7% two years after project completion and by 96.2% at the time of the ex-post evaluation.³³

Regarding iv) Increased rate of employment figures of sub-borrowers, in 78 companies, total of 33 companies visited and 45 companies that responded to the survey, the total number of employees was 1,173 before the loan and 2,117 at the time of the ex-post evaluation, showing an 86% increase. Although it is necessary to consider reasons other than TSLs, such as subsequent investment, many projects showed spillover effects namely increased employment due to domestic procurement of raw materials. On the other hand, at some companies, mechanization and automation had tripled the work efficiency, while the number of employees did not change. The employment in two companies decreased, caused by the death of livestock due to drought and zodo,³⁴ but business was picking up at the time of the ex-post evaluation.

As for the ratio of long-term credit for 3 years or more at PFIs, although no data exists two years after project completion, it increased by 50 - 56% at the time of the PFI interview during the ex-post evaluation.

The sub-borrowers' coal consumption and SO₂, NO_x, CO, CO₂, and dust emissions are indicators related to environmental protection sub-loans. All was reduced ever since the sub-loan was approved, and the targets have been achieved.

³³ Document provided by PIU.

³⁴ Meteorological disasters that have a great impact on the resources used by nomads due to the accumulation of extreme heavy snowfall, low temperatures, strong winds, and feed depletion.

Table 5 Effect Indicators

Indicator	Baseline (2010)	Target (2 years after the project's completion)	Actual (2 years after the project's completion) Feb. 2017	Actual (at the time of the ex post evaluation) Nov. 2019
iv) Increased rate of employment of sub-borrowers (%)	-	Increase from the time of sub-loan approval (% is positive)	95.7%* ¹ (number of employees for 391 sub-borrowers increased from 7,352 to 14,888)	96.2%* ¹ (number of employees for 516 sub-borrowers increased from 8,749 to 17,169)
v) Ratio of long-term loan (more than 3 years) (%)	N/A	Ratio of long-term loans (more than 3 years) for each PFI increases	N/A	50-56% increase compared with Nov. 2011* ²
vi) Project's coal consumption (t/year)	-	Reduced from the time of sub-loan approval	Reduced from the time of sub-loan approval by 55,484 t * ¹	Reduced from the time of sub-loan approval by 61,675 t * ¹
vii) SO ₂ , NO _x , CO, CO ₂ , and dust emissions from the projects	-	Reduced from the time of sub-loan approval	All reduced from the time of sub-loan approval (See Table 6)	All reduced from the time of sub-loan approval (See Table 6)

*¹ Documents provided by PIU. The number is cumulative from the start of Phase II. *² UB City Bank 50%, Golomt Bank 53%, and Xac Bank 56%. N/A for Khan Bank and TDB.

Table 6 Actual reduction of air pollutant emissions

Indicator (tons/year)	Actual (2 years after the project's completion) Feb. 2017	Actual (at the time of ex -post evaluation) Nov. 2019
SO ₂	164.30	422.19
NO _x	297.83	584.52
CO	12,205.58	12,697.69
CO ₂	134,595.66	136,202.98
Dust	35,259.09	35,588.42

Source: Documents provided by PIU. Total of all sub-loans for environmental protection from the start of Phase II.

3.3.1.2 Qualitative Effects (Other Effects)

(1) Improving the banking sector's loan-appraisal ability and building creditworthiness for SMEs

Through this project, training on long-term loan appraisal and project finance screening was conducted, and loan officers who did not have long-term loan appraisal experience were able to acquire screening skills. In addition, each PFI acquired new customers by providing SMEs with loans with favorable terms and conditions and supporting their applications. PFIs could also establish trusting relationships with old customers and offer new loans after the sub-loans were fully repaid. Many PFI staff members said that it was also a pleasure for banks to see the borrowers' growth.³⁵

³⁵ Hearings at the PFIs.

Not only were SMEs able to implement their business plans with low-interest and long-term loans, but they were also able to build trust in the bank, which led to the next loan and establish a foothold for further business development.³⁶

(2) Cooperation/Synergy Effects with the Air Pollution T/C and Japan Center Project

The environmental protection TSLs' financing guidelines were developed in collaboration with experts from Air Pollution T/C and PIU's environmental experts. In addition, the experts from Air Pollution T/C provided cooperation for selecting priority sectors, examining the environmental impacts indicated in the environmental protection TSLs' applications, calculating effect indicators, performing on-site pre-project measurements and post-project observation, monitoring sub-projects in rural areas, and implementing promotion seminars for environmental protection TSLs, jointly held with PFI at the Japan Center.³⁷ In this way, the knowledge of the environmental sector in Mongolia accumulated by Air Pollution T/C and the expertise of relevant parties were utilized in various ways, which contributed to the implementation of environmental protection TSLs.

Although there was no specific collaboration with the Japan Center Project, many of TSL's promotion seminars were held at the Japan Center as a venue, and participants from the center's business course also participated.³⁸ Many business owners succeeded in the project by utilizing TSLs while taking business courses and short-term seminars at the Japan Center. Of the 33 companies that the evaluation team visited, owners or executives of 12 companies took business courses or seminars at the Japan Center, and all responded that doing so helped with the management of their companies.³⁹

Examples of sub-loans in the manufacturing and food processing industry

		<p>Mattress manufacturing automation The manufacturing process was automated with a sub-loan, which increased production by 1.8 times. By selling to hospitals, hotels, gers, etc., its share in the Mongolian mattress market expanded to 70%. Plans to export to Russia are underway. The employee cafeteria was also improved with the sub-loan. (Ulaanbaatar City)</p>
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³⁶ Hearings at the PFIs and companies using TSLs.

³⁷ Hearings at the PIU.

³⁸ Hearings at the Japan Center, PIU, companies using TSLs.

³⁹ Hearings from companies using TSLs.

Dairy processing

A milk-processing plant existed on the company's farm, but it did not meet the national hygiene standards. A new processing plant was built with a sub-loan, and the number of cows increased from 25 to 280 by the second sub-loan. The amount of processing doubled, and the number of dairy products increased from three to eight types, which are supplied to kindergartens and elementary schools in the city. (Orkhon Province)



Sea buckthorn processing

Healthy drinks and oils are produced from the local specialty: nutritious fruits of the family *Elaeagnaceae*. Capital investment from a loan increased production nine-fold, and the products are exported to Japan and Germany. Cash-based purchases from farmers support stable cultivation.

Sales for this drink to boost the immune system did not fall during the recent pandemic. (Ulaanbaatar City)

Examples of sub-loans in rural areas

Installation of refrigeration equipment in a warehouse

In Mongolia, vegetables are harvested once a year, in September; after April, vegetables start to become damaged and must be discarded. By installing a refrigeration system with a sub-loan, it became possible to supply safe organic vegetables throughout the year. This also reduced dependence on imported vegetables in the summer. (Darkhan-Uul Province)



Newly constructed drive-in

In this case, the loan provided heating, internal equipment, and toilets for a newly constructed restaurant and hotel. It has created 42 new jobs (52 during the tourist season in summer) and the company procures meat and dairy products locally. A clean rest facility is valuable for moving in vehicles in Mongolia, which embraces vast areas of land, and it has improved the convenience when traveling to and from rural areas. (Tuv Province)

New hospital laboratory

After participating in TSL seminars held in the province, this hospital took out a loan to purchase laboratory equipment. In addition to blood and urine tests, 13 types of cancer screenings became available. Patients no longer have to go to Ulaanbaatar for testing, which contributed to saving lives through early detection of 100 cases of cancer annually. (Uvurkhangai Province)



Examples of environmental protection sub-loans



Manufacturing of improved heat-only boilers

With the introduction of eight types of machines that produce improved heat-only boilers (HOBs), production efficiency has tripled. In the past, many HOBs were imported from China and Russia, but it was difficult to replace parts in case of failure; therefore, the government is aiming to produce HOBs domestically. Manufacturing of a smokeless stove that can significantly reduce air pollutants was also started. (Ulaanbaatar City)

Sawdust briquette production

In this case, the loan was used to introduce two German-made machines, consuming one-third of the power and reducing the number of workers from four to one compared to the previous Chinese machines. Sawdust briquettes cost twice as much as the government-certified improved fuel, but NO_x emissions are halved, and no CO, SO₂, smell, and ash are emitted. The briquette also warms up quickly; therefore, it is used as a gift for elderly family members who stay home all day long. It is made of waste wood and waste oil from fried chicken. (Ulaanbaatar City)



Manufacturing of medical waste containers

A sub-loan was used to produce medical waste containers with a lid. 80% of the raw material is recycled plastic. These containers now are used in many small and medium hospitals throughout the city. Previously, medical waste was dumped in cardboard boxes, putting collectors at risk of touching needles and drugs. With this project as a trigger, the company received an order for a recycling business from a major mining company. (Ulaanbaatar City)

3.3.2 Impacts

3.3.2.1 Intended Impacts

(1) Economic Effects of Job Creation

As seen from the effect indicators, the sub-loan for this project created 8,420 new jobs at 516 companies at the time of the ex-post evaluation. Multiplying this by 4, the average number of people per household in Mongolia, yields 33,680, which means that the households benefiting from this project represent approximately 1% of the total population. If multiplied by the national average wage in Mongolia (1,166,400 MNT per month), it is possible to estimate that the annual wages were more than 118 billion MNT (about 4.7 billion JPY)⁴⁰. This is not a net amount because some people may have transferred from other jobs. However, the sub-loan companies also contributed to the increase of employment of farmers by procuring raw materials from them, thereby produced significant economic effects.

⁴⁰ The wage is a national average of the 3rd quarter 2019. Socio-Economic Situation in Mongolia, Nov.2019 (National Statistics Office of Mongolia, p49) . Calculated by 24.85 MNT = 1JPY.

(2) Air Pollution Improvement in Ulaanbaatar City

Mongolia consumes about 8.5 million tons of coal per year, and the annual reduction of 61,675 tons by this project is equivalent to about 0.7% of that total. The total amount of carbon dioxide emissions from all of Mongolia is 20.8 million tons per year, and the reduction amount by this project is equivalent to 0.6% of that amount.⁴¹ In Mongolia, where power generation accounts for 63.5% of coal consumption,⁴² certain effects have been recognized, even though the impacts on overall air pollution were limited.

3.3.2.2 Other Positive and Negative Impacts

(1) Impacts on the Natural Environment

This project was classified as Category FI⁴³ in the *JBIC Guidelines for Confirming Environmental and Social Considerations* (April 2002). All sub-loans require an environmental impact assessment by the PFI at the time of application. Depending on the contents of the project, a simple assessment may be sufficient, or a detailed assessment may be required.

The PIU conducted field visits to almost all of the companies in Ulaanbaatar and about 80% of the companies in rural areas that applied to the CSC for a loan, before the loan was approved and when each project was completed (factory completion, etc.). During the site visits, the PIU also confirmed the environmental impacts. Each PFI also accompanied the PIU and confirmed the business contents, including the environmental impacts.⁴⁴

Similarly, regarding environmental protection TSLs, an environmental impact assessment is obligatory at the time of the loan application, and the results are confirmed by the risk-management section or environmental and social consideration section of each PFI.⁴⁵

According to the PIU and PFIs, no project had a negative impact on the natural environment. None of the projects by the 33 companies that the evaluation team visited had any negative environmental impacts.

(2) Resettlement and Land Acquisition

None of the projects resulted in resident relocation or problematic land acquisition. For the

⁴¹ Japan Oil, Gas and Metals National Corporation (2019) World Coal Situation Survey, p. 35. Coal use is in 2016. The carbon dioxide emissions are in 2014.

⁴² Ibid.

⁴³ The loans classified as category FI: JBIC's funding of the project is provided to a financial intermediary etc.; the selection and assessment of the actual sub-projects is substantially undertaken by such an institution only after JBIC's approval of the funding and therefore the sub-projects cannot be specified prior to JBIC's approval of funding (or assessment of the project); and those sub-projects are expected to have potential impact on the environment. JBIC checks through the financial intermediary etc. to see whether appropriate environmental and social considerations as stated in the Guidelines are ensured for projects in this category. (*JBIC Guidelines for Confirmation of Environmental and Social Considerations*, April 2002)

⁴⁴ Hearings at the PFIs and PIU.

⁴⁵ Hearings at the PFIs and the TSL sub-loan companies.

33 companies that the evaluation team visited, the land they occupied was originally owned by the companies or leased from a public institution, and there were no cases in which resettlement was necessary.

(3) Contributions to the sustainable growth of Mongolia

This project supported 596 projects – 283 by the completion of the project and 313 by the revolving fund after the completion – with the clear goal of SME development and environmental protection. Not only did this project expand the business of the sub-loan companies, but each sub-project also contributed to export-oriented industries' growth, including the cashmere and health drinks, and to import substitution by improving domestic production, processing, and preservation. It also contributed to the improvement of safety and medical treatment, and industrial development and employment promotion in rural areas. As such, this project contributed to the sustainable growth of Mongolia in various ways without relying too much on the mining industry.

This project has achieved its objective as planned. Therefore, the project's effectiveness and impacts are high.

3.4 Sustainability (Rating: ③)

3.4.1 Institutional/Organizational Aspects of Operation and Maintenance

The MOF is the project's implementing agency, and as shown in Figure 1, after each PFI conducts a loan appraisal, the Counterpart Steering Committee (CSC) organized by the MOF is responsible for final screening of the loan.

After the consulting service for this project ended in May 2017, the PIU signed a one-year contract with the MOF under the Mongolian government's budget and provided consulting services until May 2018. The personnel at this time were seven Mongolians, including an environmental expert, and three Japanese consultants. The Mongolian side performed the work, and the Japanese consultants provided assistance on a business trip basis.

Then, after an open recruitment under Mongolian law, a new PIU was established under the MOF on September 1, 2018, which assists the CSC and manages the revolving fund.⁴⁶ At the time of the ex-post evaluation, the team consisted of a project coordinator as a key member, an attorney, an accountant, an operational staff member, and an assistant, a total of five members, which was sufficient for the operation and management of the revolving fund.⁴⁷

After the project was completed, the establishment of a special purpose entity (SPE) was proposed as a management system to transfer the revolving fund's management, based on SAPI (2013–2014). In May 2018, the Cabinet decided to establish a SPE named Small and Medium

⁴⁶ The number of sub-loans after becoming a PIU under MOF was 56 (since September 1, 2018 through January 2020).

⁴⁷ Hearing at the PIU. There has been no support for PFIs or SMEs as was in place during the project period.

Business Corporation (Government Ordinance No. 159). After that, preparations to establish the SPE began in line with the roadmap agreed between JICA and the MOF. However, at the end of 2018, a scandal of the Small and Medium Enterprise Development Fund under the Ministry of Food, Agriculture and Light Industry (MOFALI) was discovered. In response, the government announced its *Measures to Be Taken concerning Government-Affiliated Funds (Government Ordinance No. 87)* in February 2019, and it tried to increase the efficiency, transparency, and accountability of government-affiliated funds under a unified SME- development policy.

In response to this trend, in June 2020, the MOF and MOFALI agreed to subcontract management (sublease in Mongolian) of the revolving fund’s balance and the PFI’s loans to the MOFALI⁴⁸. The CSC is now led by the MOFALI (Table 7), but many of the former members of the MOF and others stay and are supposed to play the same role as before. The first CSC meeting under the new system was held on June 29. The TSL fund will be operated as an independent fund without being integrated with other funds, and the PIU members under the MOF also remains in the PIU under the MOFALI. Companies that wish to take a sub-loan will continue to apply through PFIs⁴⁹.

Table 7 Composition of CSC (number of the members)

	Nov. 2010-June 24, 2020	June 25, 2020-
Chair	• MOF, Director of Development Policy	• MOFALI, Director of Finance and Investment
Member	<ul style="list-style-type: none"> • MOF(2) • MOFALI(1) • Ministry of Environment and Tourism(1) • BOM(1) • Mongolian National Chamber of Commerce and Industry(1) • Mongolian Bankers Association(1) ※from April 2018, NGO (Corporate Governance) (1) 	<ul style="list-style-type: none"> • MOFALI(3)(Director of Policy Planning, Director of SMEs and Cooperatives Promotion Policy Coordination, Director of SMEs Support Fund) • MOF(2)(Director of Development Finance, Chief of Debt Management Division, Fiscal Policy Bureau) • Ministry of Nature Environment and Tourism(1)(former Ministry of Environment and Tourism) • BOM(1) • Mongolian National Chamber of Commerce and Industry(1)

Source: Hearing at the PIU, the MOF/the MOFALI Ministers’ Joint Decree No: 124/A-224 (June 25, 2020)

The PFI group consisted of 6 banks during the project period. As for Capital Bank, its financial statements were not disclosed from 2015 onwards and the management situation became uncertain, so the on-lending loan from the revolving fund was suspended in 2016. After that, the repayment from Capital Bank to the revolving fund was occasionally done with major delays. However, in April 2019, BOM announced the closure of Capital Bank, took over the bank’s management by appointing its authorized representatives, and transferred the

⁴⁸ As per the sublease agreement between MOF and MOFALI (signed on June 2, 2020).

⁴⁹ Hearings at MOF and MOFALI.

sub-loans from Capital Bank to BOM⁵⁰.

The on-lending loan to Capital Bank is supposed to be repaid from the MOF to the revolving fund after completion of liquidation of Capital Bank by BOM. The remaining debt is equivalent to 9.4% of the outstanding loan (as of May 2020) and is not large enough to affect the management structure of the revolving fund. In addition, PFIs other than Capital Bank were carefully re-examined by the MOF and BOM at the time of transition to the new system in June 2020, and the risk of a similar situation occurring is low. Based on the above, it is determined that the bankruptcy of Capital Bank will not affect the continuation of this project.

As the revolving funds of TSL (I) and (II) were integrated in 2015, two PFI banks from only TSL (I) (State Bank and Capiron Bank) continue to provide sub-loans. These two banks have also participated in the new system after undergoing a review at the time of system transition, as described above.

3.4.2 Technical Aspects of Operation and Maintenance

As mentioned in 3.2.1 Output (3), the consultants of this project provided technical assistance to the CSC members and each PFI. The CSC members were provided with support for approving sub-loan applications, monitoring operation and effect indicators, etc. Guidance was provided to the PFI on appraising long-term loans, including environmental and social considerations. In addition, the MOF was assisted in selecting additional PFIs and so forth.

In 2019, the CSC meeting was held every two months regularly, with an average of 12 to 15 loan reviews each time.⁵¹ The CSC meetings have been held for many years since TSL (I) started in 2006, and there are no technical problems in fund management. However, regarding the appraisal of environmental protection sub-loans, it is understood that the PIU was unable to conduct specialized appraisals because it lacked an environmental expert.⁵²

Regarding the technical aspect of the PFIs, because the PFIs of TSL (II) has been managing sub-loans and appraising loans since 2005 as PFIs of TSL (I),⁵³ there is no technical problems in the loan appraisal. At the five PFIs the team interviewed, training for new employees and at the branches is conducted by experienced staff who are familiar with the TSL within each PFI.⁵⁴

Although the operational management of the fund was practically transferred to the MOFALI, many former members of the CSC, including the members from the MOF, remains in

⁵⁰ A synthesis of the various information regarding the reasons for the bankruptcy shows laxity in loan screening, management's reliance on deposits of social insurance funds and other government funds, and a lack of oversight by the BOM due to politician involvement, among other reasons.

⁵¹ Hearing at the PIU.

⁵² Hearings at the PIU and MOF.

⁵³ UB City Bank was selected as a PFI in 2012, and the others were selected in 2005; JICA et al. (2014) *Special Assistance for Project Implementation (SAPI) for Two-Step-Loan Project for Small and Medium-Scaled Enterprise Development and Environmental Protection (II) Final Report*. UB City Bank is included here in TDB because it merged with TDB on June 29, 2020.

⁵⁴ Hearings at the PFIs.

place, as mentioned above, and the PIU members remains the same. This means that operational management know-how, in terms of loan appraisal, monitoring, etc., will be retained, and technical issues will be unlikely to arise.⁵⁵

3.4.3 Financial Aspects of Operation and Maintenance

The PIU has been funded from the MOF's regular budget through FY2020; from FY2021 onwards, it is expected to be funded by the MOFALI budget, but not less than the previous year.⁵⁶

The margin for each PFI is 4% in MNT and 3.6% in US dollars, as previously mentioned in the Output section. The evaluation team has confirmed with the MOF that the loans' terms and conditions under the new regime will remain unchanged. A comparison between the banks' prudential ratios⁵⁷ and the standards set by the BOM shows that all five banks in TSL (II) and two banks from only TSL (I) meet the criteria.⁵⁸

3.4.4 Status of Operations and Maintenance

Principal and interest from the sub-loans, after the PFI's brokerage fees are deducted, are paid to the revolving fund's account. PFIs are making their repayments to the MOF as planned.

The revolving fund continues to be utilized through PFIs for new sub-loans that meet the TSL project's objective and financing conditions. Information about the sub-loans from the revolving fund after the project's completion are shown in Table 8.

Table 8 Sub-loans from the revolving fund after the project's completion⁵⁹

Number of sub-loans (From the project's completion to the end of May 2020)	-Support of SMEs: 279 sub-loans -Environmental protection: 34 sub-loans -Total: 313 projects
Amount of sub-loans (same as above)	-US\$ 400,000 and MNT 138.7 billion (total about 5.55 billion JPY)
Balance of the revolving fund (as of May 15, 2020)	-About MNT 15.9 billion (JPY 640 million)

Note: Including sub-loans from TSL (I)'s PFIs. The exchange rate used is as of May 15, 2020. Source: Documents provided by the PIU.

In terms of operations and maintenance, it is highly evaluated that the revolving fund has been properly managed, and 313 new sub-loans have been disbursed since the project's completion, from February 2015 up to the time of the ex-post evaluation (Table 8). One of the

⁵⁵ ADB's Agricultural and Rural Development Project, which was earlier transferred from the MOF to the MOFALI in October 2019, has been operating without problems under a similar system; ever since the transfer, policy issues have become more important in the CSC's loan reviews (Hearing at ADB; June 2020).

⁵⁶ Hearings at MOF and MOFALI (June 2020).

⁵⁷ Tier 1 capital ratio, capital adequacy ratio, liquidity ratio, single foreign currency open position ratio, and total foreign currency open position ratio.

⁵⁸ Capitron Bank is Q2 2020; UB City Bank and State Bank are Q4 2019. Others in Q1 2020. According to the respective PFI websites.

⁵⁹ As of November 22, 2019.

PFI went bankrupt in 2019, but the other PFIs are performing well and will continue to play a role as PFIs after the transition to the 2020 structure.⁶⁰

The revolving fund for TSLs will be operated independently under the MOFALI, and no problems are expected from operating under the new system. Due to the economic downturn caused by the 2020 pandemic, 25 of the 430 ongoing sub-loan companies have applied for rescheduling of their repayments as of May 25, but this has not had a significant impact on the TSL as a whole.⁶¹ Employment was protected at all 17 companies interviewed between May and June 2020.⁶²

No major problems have been observed in the institutional/organizational, technical, or financial aspects or in the current status of the operations and maintenance system. Therefore, the sustainability of the project's effects is high.

4. Conclusion, Lessons Learned, and Recommendations

4.1 Conclusion

This project was implemented to strengthen SMEs and the financial sector and to reduce emissions of environmental pollutants by the provision of long-term financing to SMEs, including projects for environmental protection, thereby contributing to the sustainable growth of Mongolia.

This project was consistent with the policies to promote SMEs and to protect the environment in Mongolia at the time of project appraisal as well as ex-post evaluation. Since it was also consistent with the needs of SMEs in Mongolia with few opportunities to access low interest, long-term loans, as well as with Japan's development cooperation policies towards Mongolia at the time of project appraisal, the relevance of this project is high. Although the project's cost remained within the budget, the project period exceeded the planned time; thus, the efficiency of the project is fair.

By implementing this project, the promotion of SMEs in Mongolia, strengthening the financial sector by dissemination of know-how regarding long-term credit, and reduction of emissions of environment pollutants were observed. 596 sub-projects were funded including sub-loans from the revolving fund after the completion of the project, which had a high employment-generation effect. The sub-loans not only led to business development of each SME which took out sub-loan, but also each sub-project contributed to growth of export industries, import substitution by domestic production and improvement of processing and storage, improvement of workers' safety, industrial development and improvement of medical services in the countryside thereby contributed on avoiding overdependence on the mining

⁶⁰ Hearing at MOF.

⁶¹ Hearing at the PIU.

⁶² Hearings at sub-loan companies (2nd field survey).

industry and leading Mongolia to a path for sustainable growth. Therefore, the effectiveness and impacts of the project are high.

No major problems were observed in the institutional/organizational, technical, or financial aspects, nor in the current status of maintenance and operation. Therefore, the sustainability of the project's effect is high.

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

4.2 Recommendations

4.2.1 Recommendations to the Executing Agency

In order to facilitate the professional review of environmental protection loans, the executing agency is encouraged to strengthen its capacity for reviewing environmental loans, such as by adding an environmental specialist to the PIU in an unburdening way, even if not full-time, at the earliest possible time.

4.2.2 Recommendations for JICA

Although the project itself was successfully completed and the MOF and MOFALI jointly manage the revolving fund, the beneficiaries are still repaying their loans, and future beneficiaries are waiting their turn. During the interviews with the sub-loan companies, many of their representatives expressed the hope that many other SMEs will have the same opportunities to achieve their dreams as they did, and some of the SMEs want to repay their loans as soon as possible for this reason. There is a great deal of trust and expectation in JICA-TSL. It is expected that JICA will continue to pay close attention to the TSL revolving fund to ensure that its independence is sustained, the CSC's mechanism for reviewing loans is maintained, and the valuable operational know-how accumulated since TSL (I) will be passed on through the PIU and CSC so that Mongolia's SME support can continue.

4.3 Lessons Learned

Monitoring of PFIs and prompt action in response to business deterioration

Capital Bank, which was selected as a PFI, fell into financial difficulties around 2016, and its on-lending loan from the MOF was suspended. On the other hand, the bank kept partially repaying its on-lending loan until just before announcing its bankruptcy; therefore, it must have been difficult to anticipate the future. However, under Mongolia's Banking Law, sub-loans cannot be transferred to other banks after bankruptcy,⁶³ and all sub-loans through Capital Bank were transferred to the Central Bank of Mongolia. As a result, the companies that received loans from Capital Bank lost the opportunity to obtain new loans at favorable terms and conditions to further develop their business once they fully completed their repayment, as they had

⁶³ Amendment to the Mongolian Banking Law in June 2018.

established creditworthiness with their banks. These opportunities could have been obtained if they had used other PFIs.

It is difficult to make general statements since the bankruptcy procedures of banks depends on each country's banking laws. However, in future TSL in countries where sub-loans cannot be transferred to another bank after bankruptcy, the executing agency must monitor the PFI eligibility requirements specified in the on-lending loan agreement regularly. When a PFI no longer meets the criteria, with worst-case scenarios in mind, not only should the on-lending loan be suspended, but prompt actions should also be taken, such as the transfer of sub-loans to other PFIs.

Comparison of the Original and Actual Scope of the Project

Item	Plan	Actual
1. Project Outputs (up to February 2015)	<ul style="list-style-type: none"> • Number of sub-loans:170⁶⁴ • Amount of sub-loans:4,720 million JPY 	<ul style="list-style-type: none"> • Number of sub-loans:283 • Amount of sub-loans:4,640 million JPY⁶⁵
2. Project Period	November 2010 – June 2014 (44 months)	November 2010 – February 2015 (52 months)
3. Project Cost ⁶⁶		
Amount Paid in Foreign Currency	5,092million JPY	4,995million JPY
Amount Paid in Local Currency	392 million JPY (6,262million MNT)	160 million JPY (2,597 million MNT)
Total	5,484 million JPY	5,155million JPY
ODA Loan Portion	5,000 million JPY	4,995million JPY
Exchange Rate	1MNT = 0.0626JPY (As of September 2010)	1MNT = 0.0611JPY ⁶⁷ (Average between November 2010 and February 2015)
4. Final Disbursement	March 2018	

⁶⁴ Project Memorandum Feb.4, 2011

⁶⁵ *Project Completion Report*, p.9

⁶⁶ *Ibid.* pp.8-9

⁶⁷ Calculated from <https://data.imf.org>