

Third-party evaluation 2007
The Ministry of Foreign Affairs of Japan

Country Assistance Evaluation of Mongolia Summary

March 2008

Preface

This report is a summary of the "Country Assistance Evaluation of Mongolia" undertaken by the External Advisory Meeting on ODA Evaluation in response to the request by the International Cooperation Bureau of the Ministry of Foreign Affairs (MOFA) of Japan.

Since its commencement in 1954, Japan's Official Development Assistance (ODA) has contributed to addressing international and domestic issues that change over time. Recently, there have been increased domestic and international calls for more effective and efficient implementation of assistance. MOFA, as the coordinating ministry for ODA, has been conducting ODA evaluations, mainly at the policy level and with two main objectives: to support the implementation and management of ODA, and to ensure its accountability.

This study was conducted to evaluate the objectives, results and implementation processes of Japan's assistance for Mongolia since the Country Assistance Program for Mongolia was finalized (November 2004) until the present in order to draw lessons that could contribute to more effective and efficient implementation of aid and to ensure accountability by publishing the results of the evaluation.

The External Advisory Meeting on ODA Evaluation was formed as an informal advisory body of the Director-General of the International Cooperation Bureau of MOFA to improve the objectivity of evaluations. The Meeting is commissioned to design and conduct evaluations of ODA and report the results and recommendations to the International Cooperation Bureau. Kiyoko Ikegami, a member of the Meeting, was in charge of this evaluation.

Shinichi Kubota, Program Advisor of Sasakawa Peace Foundation, contributed greatly to this evaluation as an advisor. Likewise, officials of the Ministry of Foreign Affairs, the Japan International Cooperation Agency (JICA), the Japan Bank for International Cooperation (JBIC) and the ODA Taskforce gave their cooperation. We would like to take this opportunity to express our sincere gratitude to all those who were involved in this study. The ODA Evaluation Division of MOFA's International Cooperation Bureau was in charge of coordination. All other supportive works including the collection of information, analyses and preparation of the report were provided by the Foundation for Advanced Studies on International Development (FASID) under MOFA's commission.

Finally, we wish to add that the opinions expressed in this report do not necessarily reflect the views or positions of the Government of Japan or any other institution.

External Advisory Meeting on ODA Evaluation

Hiromitsu Muta (Chairman of the Meeting; Member of the Board/Executive Vice President, Tokyo Institute of Technology)

Kiyoko Ikegami (Director, UNFPA Tokyo Office)

Yoshikazu Imazato (Former Editorial Writer, The Tokyo Shimbun)

Izumi Ohno (Professor, National Graduate Institute for Policy Studies)

Yayoi Tanaka (Associate Professor, National Institution for Academic Degrees and University Evaluation)

Masato Noda (Trustee, Nagoya NGO Center/Associate Professor, Chubu University)

Hiroko Hashimoto (Professor, Jumonji University)

Katsuya Mochizuki (Director in Charge, Inter-disciplinary Studies Center, Institute of Developing Economies)

Tatsufumi Yamagata (Director, Development Strategies Studies Group, Development Studies Centre/ Professor, Institute of Developing Economies)

Outline

1. Evaluation Results

(1) Relevance of Policies

The "Country Assistance Program for Mongolia" is largely consistent with high-level policies of Japan and Mongolia as well as international goals such as the Millennium Development Goals (MDGs). However, there are ambiguities in specific orientations and strategies in one of the four priority areas, Rural development.

(2) Effectiveness of Results

The results of a survey of the members of Mongolia's State Great Khural, conducted as part of this evaluation, confirm that the Mongolian side is highly appreciative of Japan's assistance. Especially, a series of assistance for the 4th Thermal Power Station gets high marks. It involved a large amount of funding and organized coordination among different modalities such as grants, loans, JICA experts and senior volunteers and contributed to the stable supply of power and hot water in Ulaanbaatar.

(3) Appropriateness of Processes

One of the initiatives that enhanced aid effectiveness in the implementation process was the coordination of different aid modalities for the aforementioned 4th Thermal Power Station and in the area of waste management in Ulaanbaatar. The cooperation in waste management is a good example where continuous support -- in the forms of training provided by Sapporo City, development studies, grant aid, senior volunteers and JOCVs -- has contributed to improving the environment in the capital.

2. Main Recommendations

(1) Enhanced selection and concentration

The priority areas should be further narrowed down in consideration of the volume and cost effectiveness of aid, Japan's comparative advantage and impact. Possible future priority areas are: (A) "Support for institution building towards the development of civil society," (B) "Human security" and (C) "Support for the private sector." Furthermore, it is important to identify priorities based on a comprehensive plan in each of the following geographical categories: the capital, regional hub cities, and sparsely populated rural areas.

(2) Implementation processes that take Mongolia's conditions into consideration and take advantage of Japan's strengths

In light of the personnel and other limitations related to Mongolian aid absorption, suitable aid schemes need to be carefully selected in some areas. As an effort for "human resource building" which takes advantage of Japan's strengths, it will be useful to effectively incorporate into the schemes of loans, grant aid and technical cooperation like the dispatch of JICA experts, senior volunteers and JOCVs and the accepting trainees who are effective in nurturing the leadership and ownership in the recipient country.

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1. Executive Summary

1. Theme: Country Assistance Evaluation of Mongolia	
2. Country: Mongolia	
3. Evaluators: (1) Chief Evaluator: Kiyoko Ikegami (Director, United Nations Population Fund Tokyo Office) (2) Advisor: Shinichi Kubota (Program Advisor, Sasakawa Peace Foundation) (3) Consultants: FASID (Foundation for Advanced Studies on International Development)	
4. Period of Evaluation Survey: June 2007 - March 2008	
5. Description of Evaluation	
<p>(1) Objective This evaluation was undertaken mainly to review the projects approved and implemented under the Country Assistance Program for Mongolia finalized in November 2004 (hereafter the "Assistance Program"), and to draw lessons and recommendations that will contribute to Japan's assistance for Mongolia and effective and efficient aid implementation in the future.</p> <p>(2) Subjects and Time Period The subjects of evaluation were the projects that had been officially approved after the finalization of the Assistance Program and were being implemented at the time of the field study (October 2007). However, depending on the flow of the priority areas (see below) and overall sectors, and relationships with multiple projects (coordination among different schemes), some pre-2004 projects were also evaluated when necessary.</p> <p>(3) Methodology Based on the ODA Evaluation Guidelines, a comprehensive evaluation was undertaken from three key perspectives: "Relevance of Policies," "Effectiveness of Results," and "Appropriateness of Processes."</p>	
6. Evaluation Results	
<p>(1) Evaluation of "Relevance of Policies" The orientation, policies and priority areas of Japan's assistance for Mongolia, as stated in the Assistance Program, are largely consistent with Japan's high-level policies (the New ODA Charter, new Medium-Term Policy), Mongolia's high-level policies including the Government Action Plans (2000-2004, 2004-2008), and international goals such as the Millennium Development Goals (MDGs).</p> <p>With regard to consistency with the needs of Mongolia, the four priority areas scored differently. In the area of "Support for institution building and human resource development necessary for promoting a market economy," projects are being implemented to "improve the basic education and practical vocational training," "strengthen the public sector" and "support the private sector development." Projects are designed to develop the human resources necessary for managing the market economy while adequately recognizing the institution building of the public sector that assists the move towards a market economy.</p>	

In the control room
 refurbished
 by Japanese ODA Loan

In the area of “Support for rural development,” projects are designed to address two issues: “Support for certain model development areas” (hereafter “Support for Certain Models”) and “Support for revitalization of pastureland, livestock breeding and farming.” With regard to “Support for Certain Models,” there has been no progress in the selection of model areas by the Mongolian government and Japan’s assistance lacks focus. With regard to “Support for revitalization of pastureland, livestock breeding and farming,” the policy is to provide support for livestock breeding and agronomic farming where the poverty reduction impact and efficiency are high. However, this policy needs to be reexamined in consideration of its compatibility with the natural environment and nomadic society of Mongolia and Japan’s comparative advantages.

In the area of “Support for environmental protection,” assistance is provided to address the two issues: “Preservation of the natural environment and appropriate utilization of natural resources” (hereafter “Preservation of natural environment”) and “Measures against environmental problems in Ulaanbaatar” (hereafter “Environmental measures”). With regard to the “Preservation of natural environment,” issues thus far pointed out include preservation of biodiversity, degradation of grassland and frequent occurrence of the yellow sand phenomenon. With regard to “Environmental measures,” the degradation of urban environment including waste and water pollution due to the concentration of population in the capital has been pointed out as a challenge. There is a continued and urgent need to deal with these issues.

The area of “Support for development of the infrastructure to promote economic activity” can be roughly divided into two sub-areas: “Development of the basic and industrial infrastructure” that is directly connected to industrial growth and people’s lives in the capital and regional hub cities and “Development of the transport sector” which supports the promotion of foreign currency-earning industries. Between the time when the policy was made and the time of this evaluation, there have been no changes in the needs in either of these areas.

(2) Evaluation of “Effectiveness of Results”

It is difficult to verify concretely the effectiveness of the high-level and mid-level policy goals at this time because it has been less than three years since the Assistance Program was made in November 2004, and it is too early to see its effects.

On the other hand, in some sectors, it is possible to see certain degrees of outcomes at the sector level. From our evaluation of sectoral contributions in each priority area based on the past records of assistance and the degree to which development needs are being met, we found a notable contribution of the “Support for development of the infrastructure to promote economic activity” in the energy sector. Since 1991, Japan has been supporting the 4th Thermal Power Station in Ulaanbaatar by providing grants and yen loans and sending JICA experts and senior volunteers. Improvements in operational efficiency and safety have led to fewer accidents and shutdowns, which in turn improved the combustion efficiency, increased the supply of power and hot water and reduced the incidence of blackouts. These projects earn high marks for having made significant contributions to the lives and economic activities of the residents of Ulaanbaatar.

(3) Evaluation of “Appropriateness of Processes”

We evaluated the appropriateness of processes from the perspectives of Japan’s method and system for preparing Assistance Program, implementation systems, project preparation and implementation processes, verification systems, aid coordination and cooperation, as well as Mongolia’s aid absorption system.

With regard to a program of assistance for the above-mentioned power supply to Ulaanbaatar and waste management in the city, the effects of coordination among different aid modalities can be counted as factors that contributed to the smooth implementation process. Waste management in Ulaanbaatar is a good example: The coordination among the training program implemented with cooperation from Sapporo City, the development study, the grant aid cooperation that followed, and assistance for the implementing agency by senior volunteers and JOCVs has had a synergy effect together with the capacity development which achieved good results because of the development study and the enthusiasm of those involved, and is contributing to the environmental improvements in the capital.

With regard to aid coordination, the coordination in the education sector, led by Japan along with the Asian Development Bank (ADB) and the World Bank, deserves a special mention. The "Education Sector Master Plan 2006-2015" was prepared by the Mongolian government, education experts and donors who worked together. In the education sector, assistance implementation plans are being prepared and joint monitoring is being implemented based on the Master Plan.

One of the issues in aid absorption on the Mongolian side is a shortage of manpower in government agencies due to the drastic reduction in the number of government personnel mandated by structural adjustments after the country's transition to a market economy. This issue still needs to be considered and addressed.

7. Recommendations

(1) Enhanced Selection and Concentration

With an assumption that the volume of aid will not increase in the future, and in order to maintain cost effectiveness, the priority areas or the priority issues within them should be further narrowed down in consideration of Japan's comparative advantages and the magnitude of impacts. To do so, the following refinements are required for the current four priority areas.

- A. In the area of "Institution building and human resource development necessary for promoting a market economy," support for the sound development of a market economy should be continued.
- B. In the area of "Rural development," clarification of concrete strategies and approaches to the development of regional hub cities is required. Priorities should also be reexamined with regard to the assistance in the area of livestock breeding where Japan's comparative advantages are limited, and in the area of agronomic farming, the growth potential of which is uncertain because of the natural and socio-cultural conditions.
- C. In the area of "Environmental protection," the environmental issues should be reexamined comprehensively within the framework of urban planning in light of the current degradation of the urban environment in the capital. Preservation of the natural environment in rural areas is closely related to the issues of rural development and livestock breeding, such as the degradation of grassland and the movements of breeders to suburban areas due to the problems of overgrazing and wells (depletion, concentration of livestock and breeders due to lack of experience). Therefore, after its priority is reexamined, this issue should be integrated into rural development initiatives.
- D. In the area of "Development of the infrastructure to promote economic activity," assistance should be implemented deliberately from the perspective of improving urban functions and

in line with the revised “Ulaanbaatar Urban Planning Master Plan” which will be completed in 2008.

With regard to B, C and D above, coordination among different aid modalities will be facilitated by dividing projects into three geographical categories: the capital, regional hub cities, and rural areas with low population densities.

As a way to reorganize future priority areas, we propose the following in light of recent changes in the development needs of Mongolia. (The review must wait for the final draft of the “National Development Strategy” which has just been approved by the State Great Khural.)

- A. “Support for institution building towards the development of civil society”
- B. “Human security”
- C. “Support for the private sector”

With these priority areas as horizontal axis and the geographical division among the capital, hub cities and sparsely populated rural areas as the vertical axis, and in order to promote development that is suitable for regional characteristics, it is important to identify and put resources into priority issues where needs are great and Japan has comparative advantages, based on the comprehensive plans such as the Urban Planning Master Plan and regional development plans for the hub cities and rural areas.

(2) Organizing the Logics of the Policy Structure in the Assistance Program

Organizing the policy structure of the Assistance Program will allow more strategic preparation and selection of projects. If we are to set concrete goals, it is desirable to clarify to some extent what should be achieved in the five-year period of the Assistance Program.

(3) Implementation Processes

In light of the personnel and other limitations in Mongolian aid absorption, it is necessary to assess in advance aid absorption capabilities including the allocation of counterpart personnel. On the other hand, we have seen good examples of person-to-person transfers of knowledge and skills and shared experiences nurturing leadership and ownership on the Mongolian side. Therefore, it is desirable to continue the effective integration of JICA experts, senior volunteers and JOCVs, and Mongolian trainees into the aid modalities of yen loans, grant aid cooperation and technical cooperation.

2. Description of Evaluation

(1) Background and Objectives

This evaluation was undertaken to review the overall policy of Japan's assistance to Mongolia under the Country Assistance Program of November 2004 (hereafter referred to as the "Assistance Program"). Other objectives were to draw lessons that will contribute to future policy on Japan's assistance for Mongolia, including potential revisions of the Assistance Program, and to make recommendations for more effective and efficient aid implementation. This evaluation also serves to ensure accountability to the Japanese people by publishing results and to contribute to the development of Mongolia by feeding back evaluation results to Mongolian government officials and other donors.

(2) Subjects of Evaluation

The subjects of this evaluation were projects that had been officially approved after the finalization of the Assistance Program and were being implemented at the time of the field study (September 2007)¹. However, depending on the flow of the priority areas and overall sectors, and relationships with multiple projects (coordination among different schemes), some pre-2004 projects were also evaluated when necessary.

¹ The evaluation covered the projects that were approved or implemented between November 2004 and October 2007. The eligibility was determined based on the date of Exchange of Notes for the Grant Aid and Loan Aid projects, the date of Grant Contract for the Grant Aid for Grassroots Human Security projects, the date of Record of Discussion for Technical Cooperation projects, the beginning date of study for Development Study projects, and the beginning date of dispatch for human resource dispatch projects (JICA experts, senior volunteers, and JOCVs).

(3) Evaluation Methodology

Based on MOFA's evaluation guidelines "ODA Evaluation Guidelines Third Edition May 2006" and discussions in the External Advisory Meeting on ODA Evaluation that followed, a comprehensive evaluation was undertaken from three key perspectives: "Relevance of Policies," "Effectiveness of Results," and "Appropriateness of Processes."

Figure 1: Policy Structure Based on the Country Assistance Program for Mongolia

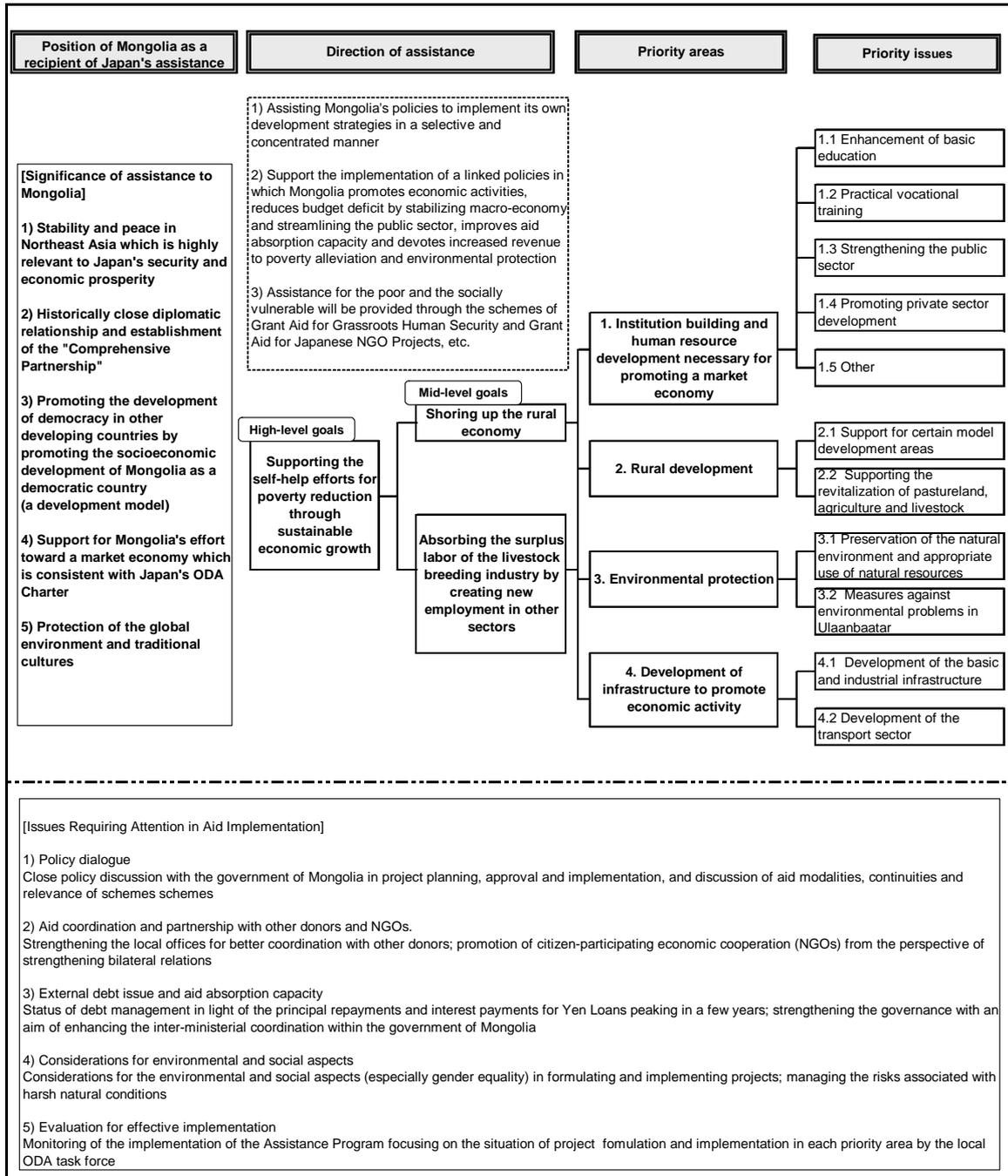


Table 1: Framework of the Country Assistance Evaluation of Mongolia

Subject of the evaluation: Country Assistance Program for Mongolia (2004)

View points of evaluation	Evaluation items	Evaluation contents and questions	Evaluation items, indicators (evaluation criteria)		
I. Adequacy of Policies	Are the contents of the Assistance Program based on Japan's high-level policies and Mongolia's development issues? ● Was Japan's "selection and concentration" appropriate?	1. Are the orientation and priority areas of the Assistance Program consistent with Japan's high-level policies?	1-1. Consistency with Japan's ODA policies (New ODA Charter, New Medium-Term ODA Policy)		
			1-2. Consistency with Japan's foreign policy ("Priority Areas of Japan's Foreign Policy," etc.) and foreign policy towards Mongolia		
		2. Is it consistent with the development plan of the Mongolian government?	2-1. Consistency with the Government Action Plan (2000-2004)		
			2-2. Consistency with "Good Governance for Human Security" (2001)		
			2-3. Consistency with the "Economic Growth Support and Poverty Reduction Strategy" (EGSPRS, 2008)		
			2-4. Consistency with Sector Development Programs		
			2-5. Consistency with the draft National Development Strategy (NDS, 2007-2021)		
		3. Is it consistent with the previous changes in the conditions of the recipient country and with the current needs?	3-1. Development of institutions and human resources necessary for the market economy 3-1-1. Progress of transition to a market economy (to see whether it is complete) • Share of the private sector in GNP • Enterprise formation (degree of privatization, degree of establishment of corporate management including subsidy policies and financial discipline) • Price liberalization (conditions of price competition, development of anti-monopoly law, price control) • Trade and foreign exchange systems (degree of government's direct involvement in trade, transparent exchange rate regime) • Banking reform (competition among banks, liberalization of interest rates, assets base, audit and supervision systems) • Macroeconomic indicators (economic growth rate, inflation rate, fiscal balance, trade balance, unemployment rate, etc.)	3-1-2. Advances in human resource development • Quality and quantity of primary education services (number of students per class, number of teachers per school, enrollment ratio) • Enhancement of secondary and tertiary education services in rural areas (fulfillment rate of school facilities, number of teachers, enrollment ratio in rural areas) • Need for human resource development scholarships in tertiary education (ratio of the number of applicants to the number of available scholarships, other scholarships for studying abroad, etc.)	
				3-2. Rural development 3-2-1. Gap between urban and rural areas • Indicators of rural economy (poverty rate, employment, income) • Access to social services (enrollment ratio in primary and secondary education, dropout ratio) • Access to social services (ratio of access to medical services) • Access to social services (water supply ratio) • Health indicators (infant and child mortality rate, maternal mortality rate, diseases)	3-2-2. Recovery of pastureland, agriculture and livestock breeding • Livestock breeding (changes in the number of livestock, livestock industry after the transition to a market economy) • Crop production, food consumption patterns
					3-3. Status and needs of environmental protection (recent changes in the environment and urgent issues) • Recent changes in the environment of the capital (increase in population, changes in air and water quality, traffic congestion) • Aggravation of desertification (forest coverage ratio, changes due to factors of climate change and human-related factors)
3-4. Status and needs of infrastructure building (verify the existence and importance of needs based on economic impacts and the supply-demand gap) • Water supply capacity in Ulaanbaatar and demand forecast • Status of power supply and demand forecast • Recent changes in the demand for transport infrastructure					
3-5. Status and needs of areas other than the four priority areas where future needs for cooperation are recognized					
3-6. Progress and prospect of achieving the MDGs. Areas where cooperation is needed (connection to the first state of NDS)					
II. Effectiveness of Results	Effectiveness of the Assistance Program ● What has been achieved so far? ● Status of achievement and prospect of achieving goals in the four priority areas ● What are Japan's contributions to improving the status in each area?			4. Consistency with international goals, complementarity with international organizations, Japan's comparative advantages 5. Inputs of aid activities and outcomes in each priority area	4-1. Review of other donors' assistance programs
					4-2. Complementarity with other donors (including China and Russia) and international organizations (Note 1)
					4-3. Consistency with international priority goals
					5-1. Actual inputs in each priority area, share in Mongolia's development budget, actual achievements.

View points of evaluation	Evaluation items	Evaluation contents and	Evaluation items, indicators (evaluation criteria)
		6. Status of achievement of goals and contributions in each priority area	<p>6-1. Status of achievement of goals and Japan's contributions in each priority area</p> <p>6-1-1. Support for institution building and human resource development necessary for promoting a market economy</p> <ul style="list-style-type: none"> • (Education) Number of students per class (Darkhan-Uul and Orkhon province, Ulaanbaatar) • (Business management) Business activities of companies which participated in Japan Center's business courses • (Tax collection) Construction of a tax education system • (Legal system) Building the capacity of lawyers • (Improving specialty skills) Place of employment for those who returned from studying in Japan <p>6-1-2. Support for rural development</p> <ul style="list-style-type: none"> • (Basic needs) Improvement of social services • (Agriculture) Development of comprehensive crop-livestock management model • (Agriculture) Development of comprehensive crop-livestock management model • (Agriculture) Development of veterinary laboratories (provinces, central) to diagnose livestock <p>6-1-3. Environmental protection</p> <ul style="list-style-type: none"> • (Weather forecast) Timely provision of reliable weather information • (Environmental measures in the capital) Status of waste management in the capital (generation, collection, transportation, disposal and management of waste) <p>6-1-4. Development of the infrastructure to promote economic activity</p> <ul style="list-style-type: none"> • (Roads and bridges) Reduction of transit time, increase in the number and types of usable vehicles, reduction of grassland loss (due to wheel ruts) • (Power) Increase in the power supply capacity and reduction of the emissions of air pollutants of the 4th Thermal Power Station • (Water supply) Increase in the water supply ratio in Ulaanbaatar <p>6-2. Changes in the macroeconomic and social indicators in priority areas</p> <p>6-3. External factors for each priority area (market movements, climate conditions)</p>
		7. Status and prospect of achieving goals of the Assistance Program as a whole	<p>High-level goal "Supporting the self-help efforts for poverty reduction through economic growth"</p> <p>Mid-level goals</p> <p>1. "Shoring up the rural economy"</p> <ul style="list-style-type: none"> • Changes in the regional gross product, per capita income and economic activities in rural areas 2. "Absorbing the surplus work force of the livestock breeding industry by creating employment in other sectors" • Changes in the work force and the number of the unemployed by sector (agriculture, services, mining, manufacturing) <p><i>(Determine the contributions to the high-level and mid-level goals based on the changes in macroeconomic data and the alignment of the direction of Japan's contributions to them)</i></p>
		8. Status of the embodiment of the "significance of assistance for Mongolia" by the Assistance Program as a whole	<p>8-1. Changes in the diplomatic relations between Japan and Mongolia</p> <p>8-2. Visibility of Japan's assistance (improvement in Japan's images by assistance, visibility of Japan's assistance within Mongolia)</p>
III. Appropriateness of Processes	Appropriateness of processes for preparing and implementing the Assistance Program ● Did the processes ensure the appropriateness of objectives (policies) and the effectiveness of results?	9. Appropriateness of the method and system for preparing the Assistance Program	<p>9-1. Appropriateness of the system and processes for preparing the Assistance Program (organizations and individuals involved, methods, communication among those involved)</p> <p>9-2. Review of the Assistance Program including revisions (how have they responded to the political and economic changes since 2004)</p>
		10. Appropriateness of processes for implementing the Assistance Program	<p>10-1. Reflection on the aid policies of the implementing agencies (JICA, JBIC) (Note 2)</p> <p>10-2. Reflection on the processes for preparing, requesting, and approving individual projects</p> <p>10-3. Appropriateness of the aid implementing systems on the Japanese side (communication among aid-related organizations, coordination among different aid schemes, specific measures for strengthening the systems, etc.)</p> <p>10-4. Appropriateness of the aid reception systems on the Mongolian side</p> <p>10-4-1. Mongolian systems for preparing, approving and requesting projects (ministries in charge, the request process), coordination among organizations involved</p> <p>10-4-2. Status of budget appropriations, external debt repayment capacity, consistency between development policies and budgets</p> <p>10-4-3. Each organization's system and capacity for implementing and monitoring projects</p> <p>10-4-4. Communication with the Japanese side</p> <p>10-5. Was sufficient consideration given to gender equality? (issues requiring attention in aid implementation)</p> <p>10-6. Was sufficient consideration given to the impacts on the environment and local communities? (issues requiring attention in aid implementation)</p> <p>10-7. Were measures taken to manage the risks associated with the harsh natural conditions in Mongolia? (issues requiring attention in aid implementation)</p> <p>10-8. Was the verification of implementation status by the local ODA task forces sufficient? (issues requiring attention in aid implementation)</p>
		11. (From a perspective of efficient implementation) Coordination with other donors, international organizations and NGOs, etc., in implementing the Assistance Program	<p>11-1. Coordination with bilateral donors, international organizations, NGOs and the private sector</p> <p>11-1-1. Involvement in international coordination forums such as policy consultations and technical meetings on aid implementation</p> <p>11-1-2. Degree of coordination with bilateral donors and international organizations</p> <p>11-1-3. Degree of coordination with Japanese and Mongolian NGOs</p>

Assistance Program: Country Assistance Program for Mongolia (2004)

Note 1: With regard to China, review the private flow (direct investments) as well.

Note 2: Includes the effects and changes due to the preparation of the Assistance Program itself.

(4) Evaluation Steps

In addition to several review meetings attended by MOFA, the Chief Evaluator, the Advisor and implementing agencies, the following are the steps taken to complete this evaluation:

- Domestic Study:

After preparing the Evaluation Framework and clarifying the scope of evaluation, we interviewed and collected data from involved parties in Japan.

- Field Study

Based on the Evaluation Framework, we interviewed and collected relevant documents and data from the Embassy of Japan in Mongolia, JICA Mongolia Office, ODA Taskforce in Mongolia, Mongolian government agencies, parties involved in evaluated projects (JICA experts, Senior Volunteers, JOCVs, etc.) and other donors (The World Bank, ADB, GTZ, USAID, etc.). Also, we conducted a survey of 75 members of Mongolia's State Great Khural² to grasp their awareness of Japan's aid and future needs. The results of this survey were utilized to examine the Relevance of Policies, Effectiveness of Results and Impacts, and Appropriateness of Processes.

3. Overview of Mongolia and Trends of Development

(1) Mongolia's total population is 2,594,100 (2006)³, and in recent years more than a million of them live in Ulaanbaatar. 95% of the people are Mongolians. Minorities include Turkic Kazakhs, Tuvas, ethnic Chinese, and Russians who stayed on in Mongolia after the collapse of the Soviet Union. The official language is Mongolian, although in the Western province of Bayan-Ölgii where Kazakhs are the majority, general education is conducted in Kazakh⁴. The adult literacy rate is high at 98%⁵.

(2) Mongolia has overcome the economic disruptions which arose immediately after the transition to a market economy. In recent years, the GDP has grown rapidly on the back of higher international prices of copper and gold which are Mongolia's main export commodities. The GDP growth rate was 10.7% in 2004, 6.2% in 2005, and 8.4% in 2006. On the other hand, income disparities are considered to be a problem as the poverty rate remains at 33% (2006)⁶. The trade balance was in the red from 1998 until 2005, but turned to the black in 2006. With regard to industries, the agricultural and livestock breeding sector and the retail and wholesale sector each account for about 20% of GDP. Recent growth of the mining and manufacturing sector is especially notable. In 2006 this sector accounted for 30% of GDP and its share has more than doubled since 2003.

² The State Great Khural has 76 seats but one was vacant during this evaluation. The questionnaire was distributed to 75 members.

³ National Statistical Office of Mongolia (2007a) *Mongolian Statistical Yearbook 2006*.

⁴ Embassy of Japan in Mongolia (2006) *Introduction to Mongolia* (in Japanese).

⁵ The literacy rate among the population of 15 years or older. In terms of the Human Development Index (HDI), Mongolia is ranked as 116th among 177 countries and categorized as a "Medium HDI country" (UNDP (2007)).

⁶ Government of Mongolia (2007). For the definition of poverty in Mongolia.

Table 2: Economic and Social Indicator

Year	2002	2003	2004	2005	2006
Population (mil.)	2.48	2.5	2.53	2.56	2.59
Livestock population (mil.) ¹	25.5	25.3	28	30.4	34.8
GDP (bil. togrog)	1236.9	1479.7	1945.6	2524.3	3172.4
Real GDP growth rate (%)	3.8	6.1	10.8	7.1	8.4
GNI per capita (USD)	471	533	691	843	1051
GNI per capita (USD) ²	430	480	600	690	-
Gross fiscal revenue (bil. togrog)	477	553.9	713.1	837.9	1,360.40
Gross fiscal expenditure (bil. togrog)	548.6	615.8	752.5	764.6	1,237.00
Fiscal balance (bil. togrog)	-71.6	-61.9	-39.4	73.3	123.4
Export (mil. USD)	524	615.9	853.3	1064.9	1542.8
Import (mil. USD)	690.8	801	1011.6	1184.4	1485.6
Trade balance (mil. USD)	-166.8	-185.1	-158.3	-119.5	57.2
Exchange rate (1 USD)	1110.3	1146.5	1185.3	1205.2	1179.7
Aid received per capita (USD) ²	85	100	104	83	-
Share of aid in GNI (%) ²	18.6	19.7	16.4	11.6	-

Source: Asian Development Bank (2007)

1: Yearbook of Asian Affairs (2007)

2: World Bank, World Development Indicators, various years

100 togrog = 9.164 yen 1 US dollar = 1,170 togrog (January 18, 2008)
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(3) The amount of aid Mongolia receives is extremely large even by comparison with low income countries, lower-middle income countries and countries in sub-Saharan Africa. The per capita amount of aid received is 83 USD (2005), which is five times the average of low income countries and almost twice the highest regional average of sub-Saharan Africa (44 USD). The share of aid in the gross national income (GNI) is also high in Mongolia: At 11.6% (2005), it is much higher than that of sub-Saharan Africa. During the socialist era, Mongolia was completely dependent on aid from the Soviet Union, from infrastructure to equipment and engineers. After the transition to a market economy, aid now comes from Western industrialized nations, but the dependence on aid remains unchanged.

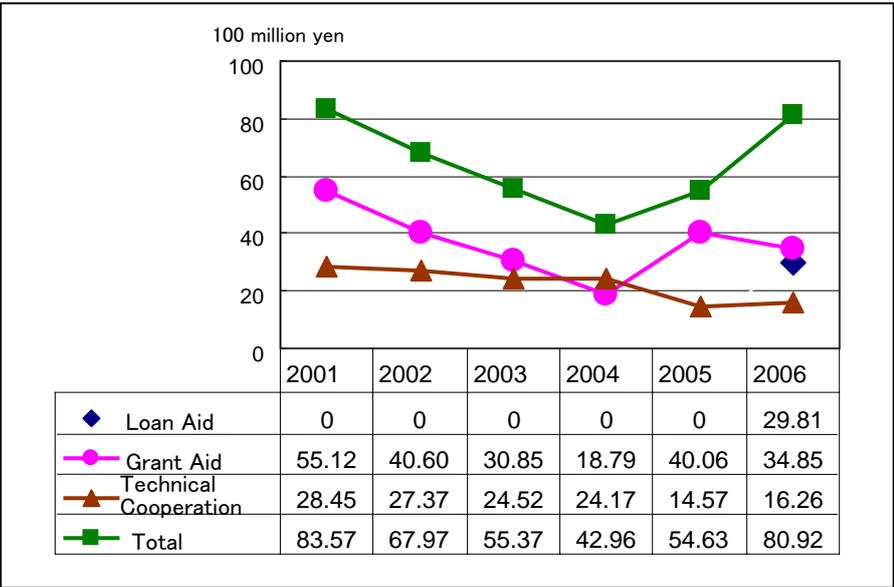
4. Relations with Japan

(1) Japan and Mongolia established diplomatic relations in 1972 when the latter was still a socialist country, and many high-ranking officials of each country have visited the other frequently. Since 1997, the two countries have aimed at a relation in which they

cooperate as equal partners under the diplomatic goal of building a "Comprehensive Partnership." In March 2006, the then Prime Minister Enkhbold chose Japan as the first country to visit after his inauguration, and in August of the same year, the then Prime Minister Koizumi visited Mongolia. When President Enkhbayar visited Japan in February 2007, the two countries announced the "Basic Action Plan for Japan and Mongolia over the Next Ten Years" and confirmed the strengthening of bilateral relations. In July of the same year, HIH the Crown Prince of Japan visited Mongolia. The memory is still fresh that, in January 2007, Mongolia declined to run for a nonpermanent membership on the United Nations Security Council, stating that it expected Japan to be a candidate. The two countries engage actively in cultural and sports exchanges, and in general the view of Japan by the Mongolian people is very positive.

(2) From the establishment of diplomatic relations in 1972 and until 1990, Japan provided aid to Mongolia in the total amount of 6 billion yen. Since the 1990s, Japan has also responded to emergency needs during the transition to a market economy, to medium- and long-term development needs in economic infrastructure building, to the needs for human resource development and institution building necessary for the market economy, and to basic human needs. Since November 2004 when the Country Assistance Program for Mongolia was finalized, Japan's aid has been focused in light of the past assistance mainly on the four priority areas identified in the Assistance Program.

Figure 2: Aid Volume by Scheme 2001-2006



Source: The Evaluation Study Team made this table based on the Ministry of Foreign Affairs "Official Development Assistance (ODA) Country Data Book," various years.

Note: The amounts of loans and grant aid cooperation for each fiscal year are based on the amounts of Exchange of Notes. The amounts of technical cooperation are based on expenses (However, only JICA expenses are counted for 2005 and 2006).

During the evaluation period (between November 2004 and October 2007), aid to Mongolia, which is a low income country, was mainly grant aid and technical cooperation. In 2006, a two-step loan was provided through the loan aid scheme with the objective of nurturing small- and medium-sized enterprises. Between 2004 and 2006, 2.981 billion yen

was provided in the form of loans, 9.370 billion yen in grants, and 5.500 billion yen in technical cooperation. The total amount in the period reached 17.851 billion yen⁷.

(3) The Assistance Program states that assisting Mongolia is sufficiently meaningful from the following perspectives: its geographical importance, the mutual goal of establishing a "Comprehensive Partnership," its significance as a model of democratic development, its promotion of market economy transition in accord with the ODA Charter, conservation of the global environment and protection of traditional cultures. Based on this understanding, the Assistance Program defines the orientations of aid as: (1) Focused support in the priority areas defined by development strategies of Mongolia itself; and (2) Support for the linkage policy which directs the outcomes of economic development towards poverty alleviation and environmental protection. The support is focused on the following priority areas which are consistent with the development issues of Mongolia.

- Institution building and human resource development necessary for promoting a market economy
- Rural development
- Environmental protection
- Development of infrastructure to promote economic activity

5. Evaluation of Assistance for Mongolia

(1) Relevance of Policies

(a) Consistency with Japan's High-Level Policies

In our judgment, the Assistance Program's "priority areas" cover most of the priority issues identified by the New ODA Charter and the New Medium-Term Policy on ODA. (One exception to this is the issue of "peacebuilding," but peacebuilding is not relevant to Mongolia, as it is not a post-conflict country.)

(b) Consistency with Mongolia's Development Plans

- The Government Action Plan (2000-2004) was prepared by the People's Revolutionary Party's Enkhbayar administration which took power as a result of the general election in 2000, with "poverty reduction by sustainable economic growth" as the basic goal. The Mongolian government clarified the orientation of its development policies under its ownership. In the orientation which places poverty reduction as the common, basic goal, the Assistance Program and the Government Action Plan are consistent with each other.
- The New Government Action Plan (2004-2008, hereafter referred to as the "New Plan") was prepared in 2004 after the fourth State Great Khural election which took place in the same year. Its content is an extension of the previous plan (2000-2004). The New Plan is also consistent with the Assistance Program.
- "Good governance for human security," which was published in 2001, summarized the priority socioeconomic development issues within the Government Action Plan (2000-2004). The 11 priority issues listed in this document are largely consistent with the priority areas of the Assistance Program.

⁷ On the basis of Exchange of Notes in each fiscal year for the loan aid and grant aid, and on the basis of total expenditure in each fiscal year for the technical cooperation (however, only JICA expenditures are counted for 2005 and 2006).

(c) Consistency with the Needs of Mongolia

- Institution building and the human resource development necessary for promoting a market economy

When the Assistance Program was prepared, there were recognized needs for improving the learning environment in basic education, training teachers, improving the curricula, and for human resource development in higher education and vocational training consistent with the transition to a market economy. Practical vocational training especially is linked directly to poverty reduction in that it creates employment and has direct economic impact. There are other strong needs for it, as well.

With regard to the institution building necessary for a market economy, when the Assistance Program was being prepared, the importance of improving public administration capabilities such as establishing a tax collection system and improving laws and regulations was seen as an effort to strengthen the public sector. At the same time, the importance of enhancing systems for nurturing and supporting enterprises, such as improving the management capabilities of small- and medium-sized enterprises, improving the know-how of commercial transactions, and improving the trade and investment environment were seen as efforts to support the private sector. If Mongolia is to keep moving towards a market economy and to promote social and economic development, it is important, on one hand, to support the public sector's capabilities for managing the market economy, and on the other, to support the private sector as the driver of economic growth.

- Rural development

At the time of planning, priority issues related to contents and orientation of rural development support were not very clear. In fact, the Mongolian side has never explicitly designated specific model areas. Japan is following a policy of preparing and implementing projects in the northern farm area/major regional cities (Darkhan, Erdenet) as interim support hubs for rural development and is beginning to build primary education facilities, support the construction of rural management models, and conduct a preliminary study for a water supply project at various sites including Darkhan. However, there was no clear consensus with regard to rural development hubs when the projects were launched, and they are being implemented individually. This is not a situation of "comprehensive support for development" programmed from the beginning and aimed towards comprehensive impacts.

In order to solve the problem of over-concentration of population in Ulaanbaatar, there is a need to promote rural development in parallel with other efforts. While observing the specific measures taken by the Mongolian side, Japan needs to clarify the orientation and priority of its support for rural development. One way of doing so is to conduct a needs assessment to clarify the issues of the hub cities (Darkhan, Erdenet), prioritize the needs, and prepare a program for comprehensive regional development before pursuing rural development.

- Environmental protection

The validity of issues recognized at the time of planning remained at the time of this study. The rapid population growth in Ulaanbaatar, in particular, continues after 2004, and efforts to build urban infrastructure and institutions are lagging, resulting in deterioration of the urban environment. More than ever, the city needs drastic measures accompanied by

urban planning which will cover heating, water supply and sanitation, and housing. The government is promoting a plan to build 40,000 houses⁸ and trying to move the residents gradually from the ger districts to apartments. As such, the issue of urban environment needs to be seen comprehensively in the context of urban development. Preservation of the natural environment in rural areas – including climate change, degradation of pastureland, concentration of livestock and herders due to the depletion of wells and lack of management, further degradation of grasslands, and relocation of herders to the suburbs -- is closely linked to rural development and livestock breeding. It will be effective to incorporate the preservation of the natural environment in rural areas within the rural development program.

- Development of infrastructure to promote economic activity

The recognition at the time of planning that it would be necessary to build infrastructure that is directly linked people's lives and to the growth of industries in the capital and regional hub cities as well as to strengthen the transport sector remained valid at the time of our evaluation.

The fact that the Japanese ODA chose -- among various infrastructure segments -- electric power, water supply and roads as priority areas of assistance is consistent with the aid needs sought by Mongolia. The 4th Thermal Power Station in Ulaanbaatar is well known as a Japanese ODA project. There is a strong need for roads. With regard to water supply projects, there is a potential demand in ger districts that are likely to see population growth.

In Ulaanbaatar, urban areas with inadequate infrastructure are expanding against the background of rapidly increasing population. The Ulaanbaatar Master Plan, originally prepared in 2003, is now being revised under a Japanese ODA project (Study for the Preparation of the Ulaanbaatar Urban Planning Master Plan and the Urban Development Program (2007-2008)). Infrastructure building in the capital should be examined after priorities are clarified in this revised Master Plan.

It will be appropriate to continue to build social infrastructure in rural areas with the Grant Aid for Grassroots Human Security (hereafter referred to as "Grassroots Grants"), and, if necessary, to support maintenance and management training by dispatching JOCVs and Senior Volunteers.

(d) Complementarity with Other Donors

- Institution building and human resource development necessary for promoting a market economy

In an effort to strengthen the public sector of Mongolia, Japan is trying to improve Mongolian public administration and policy making capabilities and technical expertise. Other donors are emphasizing financial reform centered on support for the privatization of banks.

⁸ The Government's Program of Action (approved by the State Great Khural on November 5, 2004).

Table 3: Japan's Priority Areas and Major Donors' Support Areas (Institution building and human resource development necessary for promoting a market economy)

Priority Areas	Japan's Priority Issues	Japan's Cooperation Projects	Other Donors	Cooperation Projects	
Institution Building and Human Resource Development Necessary for Promoting a Market Economy	1.1	Enhancement of basic education	<ul style="list-style-type: none"> •The Project for Improvement of Primary Education Facilities (Phase II and III) (G) •Strengthening the Planning Capacity for In-Service Teacher Training (T) •Teaching Methods Improvement Project towards Children's Development in Mongolia (T) •Advisor for Educational Administration (Experts) 	ADB	Education Development
	1.2	Practical vocational training	Japan-Mongolia Human Resource Development Cooperation Center (T)		
	1.3	Strengthening the public sector <ul style="list-style-type: none"> •Improving the public administration capabilities •Improving the policy making capabilities/technical expertise •Strengthening the financial system (Central Bank) 	<ul style="list-style-type: none"> •Project to Support Legislations (Experts) •Legal Reform Support (T) •Establishment of Tax Education System in Mongolia (D) •Establishment of Tax Administration Project (T) •Enhancement of Financial Supervision (Experts) •The Project for Human Resource Development Scholarship (G) 	USAID GTZ WB	Legal Reform Legislation Support for the Development of Financial Management Capabilities
	1.4	Support for the private sector development <ul style="list-style-type: none"> •Improving the management capabilities of enterprises •Enhancing corporate support systems •Improving the financial sector (private banks) •Improving the trade/investment environment 	<ul style="list-style-type: none"> •Strengthening of Accounting and Auditing Capability (T) •Two-Step-Loan Project for SMEs Development and Environmental Protection (L) 	ADB WB USAID WB USAID	Support for trade and investment banks Improving the organizational capability of the banking sector (support for privatization) Improving the financial sector (Support for the privatization of state-owned banks) Provision of private sector development credits Technical cooperation for trade, investment and macroeconomic policies, improving the environment for local enterprises
	1.5	Other <ul style="list-style-type: none"> •Procurement of wheat, petroleum products, agricultural machinery, sector program 	<ul style="list-style-type: none"> •Food Aid (G) •Non-Project Grants (G) •Grant Aid for under-privileged Farmers (G) 	IMF	Support for poverty reduction

Source: Asian Development Bank (2004, 2005), ADB (2006), World Bank (2007c) and field study interview (October 2, 2007).

Note: The item numbers of "Japan's Priority Issues" correspond to the numbers in the "Policy Structure Diagram based on the Country Assistance Program for Mongolia"

D: development study, G: grant aid, T: technical cooperation project, L: loan aid, TG: training,

Experts: individually dispatched experts, JPP: JICA partnership program

- Rural development

With regard to support for rural development in Mongolia, Japan provides wide-ranging assistance from snow damage control to a comprehensive crop-livestock management model. While other donors focus more of their assistance in the so-called upstream activities such as planning, Japan's aid is highly regarded as cooperation that directly benefits residents (those involved in agriculture and livestock breeding)⁹.

Table 4: Japan's Priority Areas and Major Donors' Support Areas (Rural development)

Priority Areas	Japan's Priority Issues	Japan's Cooperation Projects	Other Donors	Cooperation Projects
Rural Development	2.1 Support for certain model development areas	• Special Equipment for Infectious Diseases Initiative (T)	WB	School rehabilitation, roads, wells
	2.2 Supporting the revitalization of pastureland, agriculture and livestock breeding	<ul style="list-style-type: none"> • Policy Advisor for Agriculture and Livestock Breeding (Experts) • Human Resource Development for the Development of Agriculture and Livestock Breeding (TG) • The Project for the Improvement of Technology on Diagnosis of Animal Infectious Diseases (follow-up) (T) • Support for the Development of Comprehensive Crop-Livestock Management Model (T) • The Project for Improvement Plan of Livestock Farming System in Rural Area (D) 	WB ADB USAID GTZ EU UNDP	Snow damage control, small-scale finance Agriculture sector development, food production Under the Gobi Initiative, supports dairy farming near the capital, wheat cultivation and rural development in the north, and livestock breeders in the south. Publishes Rural Business News. Support for rural development, agricultural cooperatives Crops and livestock support system by EU TACIS (Technical Assistance of the Community of Independent States) Leads the aid coordination in the area of rural development, pasture grass, improvement of risk management in livestock breeding

Source: Same as above.

⁹ Interview of the Ministry of Food and Agriculture (September 28, 2007).

- Environmental protection

In the area of environmental protection, in Mongolia Japan is providing assistance both in Ulaanbaatar and in rural areas. The identification of issues (preservation of the natural environment, improvement of the urban environment in Ulaanbaatar) is shared by other major donors in this area, the World Bank, the Netherlands and GTZ. For example, GTZ is involved in the preservation of the ecosystem in the same Arxangaj Province, and the collaboration is expected to produce synergy effects.

Table 5: Japan's Priority Areas and Major Donors' Support Areas
(Environmental protection)

Priority Areas	Japan's Priority Issues	Japan's Cooperation Projects	Other Donors	Cooperation Projects	
Environmental Protection	3.1	Preservation of the natural environment and appropriate use of natural resources	<ul style="list-style-type: none"> •The River Basin Management Model Project for the Conservation of Wetland and Ecosystem and its Sustainable Use (T) 	<ul style="list-style-type: none"> WB Netherlands GTZ UNDP 	<ul style="list-style-type: none"> Forest management, protection of rare animals, environmental education, etc. Conservation and sustainable management of natural resources, prevention of desertification Sustainable resource management through protection of biodiversity and prevention of desertification
	3.2	Measures against environmental problems in Ulaanbaatar	<ul style="list-style-type: none"> •Two-Step-Loan Project for SMEs Development and Environmental Protection (L) 		
			<ul style="list-style-type: none"> •Development of Human Capacity for Weather Forecasting and Data Analysis (T) •East Asia Acid Rain Monitoring Network Technology (TG) •The Study on Waste Management Plan for Ulaanbaatar Municipality in Mongolia (D) •The Project for Improvement of Solid Waste Management Systems for Ulaanbaatar (G) •Urban Waste Disposal (TG) 	<ul style="list-style-type: none"> ADB GTZ WB WB 	<ul style="list-style-type: none"> Prevention of the yellow sand phenomenon Reduction of environmental stresses through increased energy efficiency Sewage treatment, improvement of heating efficiency Improvement of industrial energy efficiency Monitoring air pollution and health hazard

Source: Same as above.

- Development of the Infrastructure to promote economic activity

In the area of infrastructure building, Japan is assisting Mongolia, together with the World Bank and ADB, with water supply projects and a project to develop a highway in the Eastern Region.

Finally, with regard to the other donors' areas of assistance, we will describe selected efforts in terms of governance, macroeconomic stabilization, health, social security and infectious diseases.

Table 6: Japan's Priority Areas and Major Donors' Support Areas (Development of the infrastructure to promote economic activity)

Priority Areas	Japan's Priority Issues	Japan's Cooperation Projects	Other Donors	Cooperation Projects
Infrastructure Building	4.1 Development of the basic and industrial infrastructure	<ul style="list-style-type: none"> •The Project for Improvement of Water Supply Facilities in Ulaanbaatar (G) •The Rehabilitation Project of the 4th Thermal Power Station in Ulaanbaatar (L) 	WB	School rehabilitation, roads, water supply
	4.2 Development of the transport sector	<ul style="list-style-type: none"> •The Project for Construction of the Eastern Arterial Road and Improvement of the Related Equipments (G) •Developing of community road in the Baganuur district (JPP) 	WB ADB GTZ	Road pavement, improvement of railroad management North-South Corridor Project (road) Support for improving the power distribution efficiency

Source: Same as above.

- Other

UNDP, ADB and other donors are interested in providing governance-related assistance to Mongolia. Japan is contributing to improving governance through aforementioned support for legislation, accounting, auditing, tax services and banking in the area of human resource development.

Table 7: Japan's Priority Areas and Major Donors' Support Areas (Other)

Priority Issues	Cooperation Projects	Other Donors	Main Cooperation Projects
Governance and macroeconomic stabilization	Improvement of public expenditure management	WB	Reforming public services and public expenditure management
	Promoting good governance	ADB UNDP	Governance reform Governance support
	Optimum currency management for stabilizing the macro economy	IMF	Support for non-inflationary financing
Health, social security, infectious diseases	Improving the implementation, management and coordination of health policies and programs	GTZ UNFPA	Reproductive health, HIV/AIDS prevention, measures to fight SARS Expanding the access of rural communities to health services
	Promoting efforts to reduce maternal mortality rate	UNFPA	Maternal and child health, measures to fight HIV/AIDS
	Promoting the reform of the social security system	WB ADB	ADB and the World Bank's joint social security development program

Source: Same as above.

(e) Appropriateness in Light of Priority Areas of Japan's Foreign Policy

The document entitled "Priority Areas of Japan's Foreign Policy" (2007 Edition) lists four priority areas: "Enhancing the basic strength of Japanese diplomacy," "Ensuring the security and promoting the prosperity of the people," "Strengthening Asian diplomacy and ensuring a desirable international environment," and "Active communication of Japan's appeal and messages."

Of these, with regard to the goal of "Ensuring the security and promoting the prosperity of the people," "Efforts toward a comprehensive resolution of issues surrounding North Korea such as abductions and nuclear and missile development" is mentioned. With regard to the goal of "Strengthening Asian diplomacy and ensuring a desirable international environment," meeting global challenges by deepening Japan's diplomacy is mentioned.

Our field study confirmed that through Japan's ODA, the Mongolian side appreciates the exactitude, attentive work and sincerity of Japan.

(2) Effectiveness of Results

- Institution building and human resource development necessary for promoting a market economy

In the priority area of "improving basic education," The Project for Improvement of Primary Education Facilities is being implemented through the grant aid cooperation scheme while advisors for educational administration and volunteers are dispatched. Support for teacher training is provided through a technical cooperation project "Strengthening the planning Capacity for In-Service Teacher Training" and a Training Program for Young Leaders called "Training of Teachers in Rural Areas." Also, 23 Grassroots Grant projects are being implemented, including the rehabilitation of primary school facilities.

In the area of "practical vocational training," the Japan-Mongolia Human Resource Development Cooperation Center Project (Phase 1, 2 and a technical cooperation project) and two Grassroots Grant projects including the renovation of vocational training centers are being implemented.

In the area of "strengthening the public sector," various projects for improving the administrative capability are being implemented. They include: Establishment of a Tax Education System in Mongolia (development study) and Establishment of a Tax Administration Project (technical cooperation project) designed to strengthen tax collection capability; Legal Reform Support (technical cooperation) project, the dispatch of legal experts to support the improvement of the legal system and the dispatch of experts for the enhancement of financial supervision. In addition, scholarships for human resource development are provided through the Project for Human Resource Development Scholarship (grant).

In the area of "support for the private sector development," Strengthening of Accounting and Auditing Capability Project is being implemented under the technical cooperation project scheme, and the Two-Step-Loan Project for SMEs' Development and Environmental protection is under the loan aid scheme to support the development of private companies.

- Rural development

With regard to rural development, Japan is providing support in the priority regions of Darkhan and Erdenet in the education, agriculture and water supply sectors. Except for the education sector, however, the programs in these regions are still in early stages and have not produced impacts.

In other regions, 57 projects were implemented from the perspective of poverty reduction and development of basic infrastructure between FY2004 and FY2006 with Grassroots Human Security Grant Aid in various provinces of the country in basic human needs (BHN) related sectors in rural areas. These cooperation projects which cover the entire country and contribute to the improvement of people's livelihood in rural areas are highly appreciated by the Mongolian side and should be commended. They are not consistent, however, with the rural development policy of the Assistance Program as they are not focused on "regional development hubs." Nonetheless, in light of the vastness of Mongolia and its sparse population, assistance in the BHN sector through this modality is appropriate. In the future, when the Assistance Program is revised, consistency with the Program can be maintained by utilizing this modality as part of "Human security." In the agriculture and livestock breeding sector, Japan had been providing assistance for more than 10 years (before the evaluation period) including the dispatch of experts and projects for the improvement of animal infectious disease diagnostic technology and rural veterinary laboratory diagnostic capabilities. With regard to crop production, Japan is responding to the diversification of agricultural modes and beginning some projects in diversified crop-livestock farming, including agronomic farming.

- Environmental protection

There are two priority issues in the area of environmental protection: "Preservation of the natural environment and appropriate use of natural resources" and "Measures against environmental problems in Ulaanbaatar." With regard to the "Preservation of the natural environment and Appropriate Use of Natural Resources," a technical cooperation project called the Project for the Development of Human Capacity for Weather Forecasting and Data Analysis was implemented in the area of weather observation and forecasting. In relation to that, a training program for acid rain monitoring was conducted in Japan. Also a technical cooperation project called The River Basin Management Model Project for the Conservation of Wetland and Ecosystem and its Sustainable Use in Mongolia is being implemented.

In the area of "Measures against environmental problems in Ulaanbaatar," assistance for waste management is being provided through various aid schemes, such as a development study called The Study on Waste Management Plan for Ulaanbaatar Municipality and a grant aid project called The Project for Improvement of Waste Management for Ulaanbaatar.

In addition, two Grassroots Human Security Grants are being implemented. In the Two-Step-Loan Project for SMEs Development and Environmental protection, about one fifth of the loan amount will be allocated to environmental protection activities by the private sector.

- Development of infrastructure to promote economic activity

With regard to the development of basic and industrial infrastructure, the Project for Improvement of Water Supply Facilities in Ulaanbaatar was implemented under the grant aid scheme. Also, the Rehabilitation Project of the 4th Thermal Power Station in Ulaanbaatar (II) was implemented under the loan aid scheme. This follows the first phase of the project, which was approved in 1995 and coordinated with other schemes such as grant aid cooperation (1992-1994, 1996-1998) and a development study (2001-2002)¹⁰. In the area of urban development and living environment, a development study called the Ulaanbaatar Urban Planning Master Plan and a training program in Japan for urban development, building standards and bridges are being implemented, and volunteers have been dispatched in areas of architecture, urban planning, broadcasting and computer technology.

With regard to the development of the transportation infrastructure, The Project for Construction of the Eastern Arterial Road and Improvement of the Related Equipment is currently being implemented (February 2008). As a technical cooperation project, the Project for Formulation of Master Plan on Modernization of Railway was implemented.

(3) Appropriateness of Processes

(a) The Country Assistance Program can be commended in that it was prepared by a core group of Japanese experts while incorporating a wide variety of opinions from those involved, including those on the Mongolian side.

However, on the negative side, the focus is not sufficiently sharp; priority areas are described in such a way that cooperation in any area can be included. On the other hand, with regard to the debate on whether a comprehensive planning is desirable or the focus needs to be narrowed down, the Program should be flexible as a matter of practicality in light of MOFA's policy that in principle it will not change the Assistance Program for five years once it is finalized.

(b) Donor coordination is not necessarily robust in Mongolia, but the education sector is an exception.

Aid coordination in the education sector got into full swing in 2005 when ADB began a preparatory study for the Third Education Development Program. The Mongolian Ministry of Education, Culture and Science took initiative to convene discussions among donors and those involved in education and to prepare the Education Sector Master Plan which covers the period 2006-2015. Japan and other major donors such as The World Bank, ADB, UNICEF and UNESCO implement aid programs in the education sector in accordance with this Master Plan¹¹. Coordination in the education sector has achieved significant results, including the preparation of annual plans and quarterly reviews through the Education Donor Consultative Mechanism and the 29 million USD obtained from the FTI Catalytic Fund.

With regard to infrastructure, the ADB assisted in the preparation of the Transportation Master Plan in November 2005. Japan, ADB, ROK, China, Turkey and other donors are implementing road development projects under a donor coordination scheme and in accordance with the Master Plan.

¹⁰ For an analysis by coordination among different schemes. The amount of grant assistance was 1,598 million yen for the 4th Thermal Power Station Upgrade Project (1992-1994) and 1,173 million yen for the 4th Thermal Power Station Upgrade Project (1996-1998).

¹¹ Japan International Cooperation Agency (2006) *Country Assistance Program for Mongolia* (in Japanese).

An example of cooperation in the area of rural development is co-financing by the Netherlands, EU and Japan towards the World Bank's Sustainable Livelihood Project II¹² (45 million USD), which is a result of the Environment and Rural development Working Group of the second Technical Meeting.

In the environmental sector, the major donors are the World Bank and the Netherlands, and they act as coordinators between the Ministry of Nature and Environment and other donors¹³.

Local interviews reveal that the current Japanese Ambassador's presence is quite significant with regard to aid coordination. The Ambassador played a major role in holding the Technical Meeting by persuading reluctant donors to attend. In the future, if Japan is to contribute more actively in aid coordination, systematic efforts need to be made. In September 2007, JICA Mongolia Office appointed two officers to be in charge of aid coordination and they have begun collecting information from other donors and international organizations¹⁴.

6. Recommendations

Relative to the size of its population and economy, Mongolia receives huge amounts of international aid. This is probably because each donor recognizes the importance of assisting Mongolia after considering its geopolitical situation, the development of Northeast Asia, support for its transition to a market economy and the development of Mongolia as a democratic nation. Japan's aid to Mongolia is also playing an important role in promoting the development of Mongolia in addition to promoting bilateral diplomatic and friendly relations.

On the other hand, aid beyond capacity can make smooth aid absorption difficult and make the recipient country aid dependent. In supporting Mongolia, which receives an outstanding amount of aid per capita and relative to the size of its economy, these points must be carefully considered in the implementation process.

We have summarized our recommendations as follows. First, we will describe our recommendations regarding future aid planning and priority areas (Recommendations (1) to(3)), followed by our recommendations regarding implementation processes (Recommendations (4) to (8)).

(1) Recommendations on future aid planning and narrowing down priority areas - Responding to changes by concentration and selection

Japan's aid to Mongolia in the 1990s had strong characteristics of emergency assistance for the transition towards a market economy and rebuilding the economy which had been disrupted by the withdrawal of aid from Russia, but it then shifted towards support for stable economic growth as the move towards a market economy progressed. The 2004 Country Assistance Program (the "Assistance Program") declared a new direction of "supporting the self-help efforts for poverty reduction through economic

¹² This project includes a risk management component for reducing the risks of nomadic grazing and a microfinance component, and has a unique approach where the beneficiaries select the projects (2007-2012). Interview with the World Bank Mongolia Office (October 1, 2007).

¹³ Interview with the Ministry of Nature and Environment (October 1, 2007).

¹⁴ Interview with the JICA Mongolia Office (September 27, 2007).

growth." Including the pre-2004 assistance, Japan's aid so far has achieved definite results.

In 2005, Mongolia's fiscal balance moved into the surplus, since then, the economy has stabilized due to the robust tax revenue. With the privatization of land ownership, real estate investments are heating up and a construction rush continues in the capital. On the other hand, more effort has been made for the move towards a market economy in some areas than for livestock breeding in rural areas. Despite emphasis by the Mongolian government, more people are giving up livestock breeding and moving to the capital. The transition to a market economy is widening the wealth gap between the rich and those who are left behind, and the deteriorating environment of Ulaanbaatar due to the rapid urban expansion is concerned. These developments signal changes in the need for cooperation.

"Selection and Concentration," one of Japan's ODA policies, has also been employed in Mongolia. With an assumption that the volume of aid will not be substantially increased in the near future, it is time to think about a "selection and concentration" policy that is appropriate for the current condition of Mongolia.

It is undeniable that the Assistance Program, finalized in 2004, slightly lacks focus in its priority areas. In order to maintain cost effectiveness in the face of recent reductions of ODA budgets, the current four priority areas, or the priority issues within them, should be further narrowed in consideration of Japan's comparative advantages and the magnitude of expected impacts.

However, future policy priorities and the direction of development strategies on the Mongolian side are currently unclear. Under these circumstances, it would not be appropriate to narrow down Japan's assistance areas at this time. The following should be considered as recommendations at the present time (February 2008) as a result of this particular evaluation. When the Assistance Program is revised in 2009, it will be necessary to review the new National Development Strategy (NDS) or the new administration's Action Plan which will be prepared based on the NDS.

[Recommendation (1)] As the priority areas in the future, focus on (A) "Support for institution building towards the development of civil society," (B) "Human security," and (C) "Support for the private sector."

A. Support for institution building towards the development of civil society

In Mongolia, the transition to a market economy has progressed to some degree, and the necessary laws and institutions are being developed. However, the challenge lies in administering these institutions and laws. To achieve sound development of the Mongolian society, it is essential to enhance the capacity of the public sector which manages the market economy while raising the awareness of the civil society to check the operation of public sector. In the public sector, Japan should continue its focus on the existing areas of cooperation, which include tax administration and legislation. Enhancing these public sector capabilities will lead to better governance and demonstrate the direction of Japanese aid toward the promotion of sound market economy and civil society development. This corresponds to the goal of "promoting democratic governance" set by Mongolia as its ninth Millennium Development Goal (MDG) and is consistent with one of the priority issues agreed by the donors.

B. Human security

Japan's cooperation in the past had been mainly centered on economic growth. Mongolia's economy is now in good shape as reflected in its per capita GNI which increased to more than 1,000 USD in 2006. In light of recent changes in Mongolia, it now is time for Japan to pay attention also to the area of social development where progress has been slow, such as water supply and health services in rural areas.

Basic Human Needs (BHNs) are mentioned by the Assistance Program in the area of rural development. However, recent population inflow from rural areas to urban areas has led to an increase in the number of unregistered residents who cannot receive social services. It is becoming more important to provide assistance to those who have a hard time receiving social services. Issues such as an improvement of the health environment of the ger districts need to be focused as well. In terms of aid schemes, fine-tuned assistance that satisfies the needs of beneficiaries through financial assistance under the Grant Aid for Grassroots Human Security scheme, Senior Volunteers and JOCVs will be effective.

C. Support for the private sector

The Mongolian government and donors are beginning to direct their efforts toward private sector development. In this area, Japan is supporting small- and medium-sized enterprises (SMEs) with two-step loans in addition to its past cooperation in the areas of accounting, auditing and finance. A program to dispatch trade investment policy advisors has also begun.

As part of private sector development, the appropriate development of mineral resources -- precious Mongolian assets -- is essential to the development of the economy and to improvement in people's lives. It is vital to secure a stable revenue stream from mineral resources in order to prevent the widening of the wealth gap. It is also important to stop the deterioration of the environment caused by the inappropriate development of resources. To support these efforts, Japan should continue to encourage Mongolia to accept resource development policy advisors, and, at the same time, to cooperate with other donors to encourage the Mongolian government to prepare and implement a subsurface resources development policy that will provide a sustainable future for the country.

[Recommendation (2)] When preparing projects, prioritize them from the perspective of the aforementioned priority areas based on a development plan which takes advantage of the characteristics of the capital and rural areas.

There are many issues that cannot be effectively resolved from the perspective of areas and sectors, such as the urban environment of the capital. Therefore, Japan should extract priority issues by combining the perspective of comprehensive regional development and the above-mentioned priorities.

First, the infrastructure and the environment in Ulaanbaatar must be considered as part of the revised Ulaanbaatar Urban Planning Master Plan and in the context of overall urban planning.

The population of Ulaanbaatar is rapidly increasing and there are gradually aggravating urban problems such as traffic congestion and air pollution. With regard to infrastructure and environment in the expanding Ulaanbaatar metropolitan area, programming and coordination among different schemes will be facilitated by dealing with them comprehensively. Specifically, Japan should involve the Mongolian side in the process of revising the Ulaanbaatar Urban Planning Master Plan (hereafter referred to as the "Master Plan"), which is scheduled to be completed in 2008 and which is now being implemented under the Development Study scheme. After consultations, Japan should make plans in accordance with the Master Plan.

With regard to the environment, the urban environment is deteriorating because the development of urban infrastructure and institutions has not kept pace with population increases. The effectiveness of the uncoordinated efforts is limited, and there is a need for a comprehensive urban planning solution which includes heating, water supply, sanitation, housing, and land use regulations. It is essential to grasp the issues of the urban environment in the context of urban development.

Second, with regard to the development of regional hub cities, it is necessary to clarify regional needs and to stipulate the strategy for and specific approaches to development.

With regard to rural development, the current Assistance Program states that the goal is to provide comprehensive development assistance to "certain areas" as model cases in order to revive industries in the regional hub cities and energize the regional economies. Currently, the proposed direction is to develop Darkhan and Erdenet as hub cities.

If these hub cities can be developed, they will offer an alternative to people who might migrate to the capital, potentially avoiding over-concentration in the capital. In order for this to happen, Japan first must clarify the direction and priorities of its assistance in the area of rural development while still respecting the specific measures of the Mongolian side. To do so, Japan must clarify the issues of the targeted hub cities (Darkhan, Erdenet) and prioritize them. For example, it is possible to promote rural development by designing a comprehensive regional development program which encompasses agriculture, infrastructure building such as roads and water, and support for income enhancement.

With regard to the development of sparsely populated rural areas, it is necessary to take advantage of the characteristics of each region and to focus cooperation in areas where Japan has comparative advantages.

There is no doubt about the importance of developing rural areas where the poverty rates are roughly 10% higher than in Ulaanbaatar. However, in Mongolia, which is four times as large as Japan, Japan's range of options consistent with its comparative advantages are limited, the key industry of livestock breeding is one example. With regard to agriculture and livestock breeding, thanks to long-term support a certain level of human resources has already been developed in such areas as prevention of livestock diseases. Much aid is needed in diversified agriculture which combines agronomic farming and livestock breeding as this is in line with the policy of the Ministry of Food and Agriculture. But Japan should carefully identify specific areas where its assistance can be effective.

Especially in the area of social development in rural areas, aid has been provided variously throughout the country, mainly through the Grant Aid for Grassroots Human

Security. The selection of this modality is appropriate in light of the vastness of Mongolia's area and the sparseness of its population.

With regard to rural infrastructure, the Mongolian Ministry of Finance has a basic principle of receiving aid from overseas in the form of grants for social services and loans for infrastructure. While there are acute needs for road infrastructure in rural areas, the ADB and the World Bank are already involved here. With regard to the building of roads with grant aid, the priority should be carefully examined.

Preservation of the natural environment in rural areas is closely related to the issues of rural development and livestock breeding: climate change, degradation of pastureland, depletion of wells, concentration of livestock and breeders due to a lack of experience which leads to a further degradation of grasslands, and the movement of herders to suburban areas. It is important to continue to carefully monitor this. For each category of hub cities and sparsely populated rural area, environmental conservation should be incorporated into the rural development plan which is likely to be promoted under a future administration's development plans. These are also related to efforts to deal with cross-border environmental issues such as the prevention of global warming and the yellow sand phenomenon. However, priorities need to be carefully considered as the issues and target areas are very wide-ranging.

To summarize the aforementioned two recommendations, Japan should narrow its priority areas and provide assistance based on a comprehensive plan which takes into consideration the characteristics and needs of each region after carefully identifying the priority issues. For reference, the figure below shows the priority issues which seem to reflect strong needs and where Japan has comparative advantage.

Figure 3: Selection and Concentration - Examples of Priority Issues
(a conceptual diagram)

	Ulaanbaatar	Hub cities	Sparsely populated rural areas	All
1. Support for institution building towards the development of civil society				Legislation, tax administration
2. Human security	Social development Improvement of urban environment	Social development Improvement of urban environment	Social development Improvement of urban environment	
3. Support for the private sector	Infrastructure building		Regional development by developing natural resources sector	Support for SMEs Trade promotion Financial and audit systems

[Recommendation (3)] Clarify the logic of the policy structure of the Assistance Program.

In order to realize more compelling selection and concentration, the logic of the Assistance Program must be reorganized.

In the current Assistance Program, it is difficult to understand the causal relations between the high-level goal of "supporting self-help efforts for poverty reduction through sustained economic growth" and the mid-level goals of "shoring up the rural economy" and "absorbing the surplus labor force of the livestock breeding industry by creating employment in other sectors." The linkages between the mid-level goal and the priority areas also are weak. No matter how successful the cooperation in the priority areas, it is difficult logically to expect that the mid-level goals will be achieved. In fact, if we exclude assistance for road construction and agriculture and livestock breeding, all the projects and programs implemented in rural areas since 2004 were either in the areas of education and the environment or the areas of improving health facilities and equipment and water supply through Grassroots Grant Aid Cooperation. At least in the short term, they did not contribute directly to the shoring up of the rural economy.

If these are adopted as the five-year goals of the Assistance Program, it would be desirable to clarify what should be achieved and to what extent (what will be supported and to what extent) within those five years. This will make it easier to evaluate cost effectiveness and to justify them to the Mongolian side, making it possible to narrow the realistic projects in each priority area. When the Assistance Program is next revised, it will be necessary to clarify the logic of the policy structure and describe a clear strategy.

If fully attainable goals can be established, creation of measurable indicators may be considered in order to describe the goals more specifically. In that case, however, it will

be important to establish a mechanism for periodically monitoring the Assistance Program and ensuring a mechanism through which the goals and indicators can be changed during the five-year period if conditions on the ground no longer support them.

(2) Recommendations on implementation processes

[Recommendation (4)] Demonstrate the project selection criteria.

Our study revealed that the implementation system of the Mongolian side has various problems. These include a lack of coordination capability in the Ministry of Finance which acts as the contact point of aid reception, a culture of compartmentalization among different ministries, a small population, a deficiency in the number of personnel on the Mongolian side due to streamlining of ministries, a lack of ownership partly due to an oversupply of aid, and a culture which has tolerated bribery and public and private nepotism as inevitable for a long time. It would be difficult to change these circumstances in a short time. On the other hand, there are many positive factors such as a well-educated population and the people's affinity toward Japan. Under these circumstances, the following points require attention for future aid implementation.

Requests from various ministries are gathered and prioritized by the Mongolian Ministry of Finance. We believe that aid will be more efficient if we demonstrate the project selection criteria when we select the projects so that the prioritization process at the Mongolian Ministry of Finance and the prioritization process on the Japanese side are understood by both ministries. For example, it may be a good idea to demonstrate criteria which can be disclosed when the current "Project Guidelines" are prepared, although it may not be realistic to incorporate them into the Assistance Program in light of the fact that the Assistance Program will in principle not be revised for five years after it is once finalized. Currently criteria are explained at policy consultations, but clarifying Japan's stance to the ministries and other donors who do not participate in these consultations will facilitate communication and coordination.

For reference, the ADB's criteria for project selection are: (1) priority of the government (of the partner country), (2) ADB's comparative advantage based on analyses of current conditions, (3) trends of other donors (complementarity with other donors), (4) organizational strengths and limitations (staff, budget), (5) scale impact (areas where a certain level of impact is likely to be realized by ADB's assistance are preferred), and (6) the history of past cooperation.

[Recommendation (5)] When selecting projects, thoroughly examine the recipient system and consider a scheme which can deal with insufficient personnel.

From the perspective of implementing the Assistance Program, it is important to thoroughly examine the reception system of the Mongolian side, the possibility of the allocation of the counterpart personnel, and the sustainability of the project at the time of the needs assessment and other preparatory stages. It would be meaningful also to clarify these points by including them in the project selection criteria mentioned in Recommendation (4).

The lack of personnel on the Mongolian side is not an issue of quality. Rather, it stems from a sheer deficiency in numbers. Therefore, it is necessary to design projects with an understanding that a lack of personnel will be somewhat of a problem. An allocation of counterpart personnel will be a necessary condition for technical cooperation projects. However, if it is difficult to secure a counterpart, perhaps because aid volume has overwhelmed the absorptive capacity as mentioned above, Japan should think about preparing a system from the outset that can move cooperation forward smoothly. Another alternative is to make a bold decision to refrain from implementing technical cooperation projects in areas where the lack of human resources is especially acute.

[Recommendation (6)] Emphasize the dispatch of JICA experts, Senior Volunteers and JOCVs and the acceptance of trainees.

With the aforementioned restrictions on the volume of aid, and with regard to aid schemes, it is desirable to keep increasing the dispatch of JICA experts, senior volunteers and JOCVs and to receive trainees, thereby elevating the positions of these schemes within Japan's cooperation. We have seen that human-to-human transfers of knowledge and skills and sharing of experiences contribute to nurturing leadership and ownership on the Mongolian side. We have seen in examples of the 4th Thermal Power Station, Ulaanbaatar Waste Management, Development of Community Environment in the Baganuur District and other projects that such human-to-human cooperation leaves a strong impression of the Japanese people's sincerity and diligence, which eventually leads to the positive achievement of good, amicable relations between the two countries.

In particular, we confirmed that the continual dispatch of Senior Volunteers is functioning effectively as follow-up for grant aid, loan aid and development studies in the 4th Thermal Power Station Project and the Ulaanbaatar Waste Management Project. Management assistance by Senior Volunteers which can take advantage of Japanese technologies in operating the hardware is especially effective. If Japan keeps providing assistance in these forms, we believe that the impact of Japanese cooperation will certainly take root in the people and organizations of Mongolia.

[Recommendation (7)] Promote coordination with Japanese municipalities and local organizations.

Particularly notable among cooperation in Mongolia is the contribution of Sapporo City which also faces the challenges from the cold climate. Sapporo city leveraged that experience in accepting trainees in water supply and waste management. While it is difficult to predict the impact of international exchange programs by municipalities, it is desirable to continue them in a step-by-step fashion. The Aichi Prefecture Bar Association's active assistance to the Mongolian legal establishment also is playing a vital role in furthering support for legislation. If possible, it would be effective to share the direction of the aid program with these municipalities and local organizations in the medium and long term and to promote collaboration.

[Recommendation (8)] Disseminate more specific project information.

While donor coordination is not being pursued aggressively except in a few sectors, the Embassy of Japan has a very large presence within the donor community. Nonetheless, the details of Japan's assistance are not well known to other donors, with the exception of the 4th Thermal Power Station project. One can obtain very detailed project information through the Internet from USAID, GTZ, ADB and other donors. By disseminating information more actively, we can expect to achieve better coordination with other donors and local NGOs.

On the website of the JICA Mongolia Office, cooperation policies and projects are described in plain language, both in English and Mongolian. After merging with JBIC, the website of the JICA Mongolia Office should provide information for the general public as well as detailed project information for the donor community, including that of loan aid projects and activities of JICA experts.

The website of the Embassy of Japan in Mongolia offers an outline of Japan's economic cooperation and a report on the official signing of Exchange of Notes in Japanese and Mongolian. The website also offers a brochure entitled "Japan's Assistance to Mongolia" (Japanese, English, and Mongolian). We expect that, in the future, the website will be further developed.