



Work-in-Progress: Not for Quotation

Title: **Country Assistance Program Evaluation for Mongolia
—Evaluation Approach Paper**

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A. Introduction

1. Asian Development Bank's (ADB) current Country Strategy and Program (CSP) for Mongolia covers the period 2006 to 2008. The next Country Partnership Strategy will be prepared in 2008. The first Country Assistance Program Evaluation (CAPE) for Mongolia covering the period 1991-2001 was prepared in 2002.¹ The subject CAPE will be the second that is conducted for ADB support to Mongolia. The CAPE will cover the last 11 years (1997–2007) of ADB operations, with some overlap with the previous CAPE to ensure that there is a period long enough to assess the results of ADB assistance. It will, however, emphasize performance during the last five years, so that the findings are useful for the preparation of the next country partnership strategy and business plan for Mongolia. To help plan this evaluation, a reconnaissance mission to Mongolia was carried out from 6 to 9 November 2007.

B. The Mongolia Context

2. Mongolia, a nation land-locked between the People's Republic of China (PRC) and Russia, is one of the least-populated (1.7 persons per sq. km) countries in the world. It has a population of 2.5 million persons living in a vast land area that is three times the size of France. Economic activity is centered around nomadic, livestock-based agriculture and mining. Mongolia has extensive mineral deposits including copper, coal, molybdenum, tungsten, and gold, with mining activity accounting for a large part of industrial production. As a result of strong growth in the mining sector, Mongolia has a per capita gross domestic product (GDP) in excess of US\$1,000.

3. Since 1991, Mongolia has been undergoing a transition from a Soviet-style planned economy to a market-based economy. The Government has undertaken major reforms in the areas of price liberalization, privatization, agriculture, industry, banking, and creation of market-based institutions. A parliamentary democracy has been established, and rule of law serves to protect civil liberties and human rights. Steady progress in economic and political reform has contributed to substantial changes in the structure of the economy, and in patterns of external trade. Mongolia joined the World Trade Organization (WTO) in 1997 and has become one of the most open economies in Asia. After a period of economic contraction in the 1990s, growth has resumed, and the poverty incidence has substantially declined, although a third of

¹ ADB. 2002. *Country Assistance Program Evaluation in Mongolia*. Manila. Available: <http://www.adb.org/Documents/CAPEs/MON/2002/default.asp>.

population continue to live on less than a dollar a day. Moreover, inequality is severe between the urban and rural areas, especially in the western part of the country,

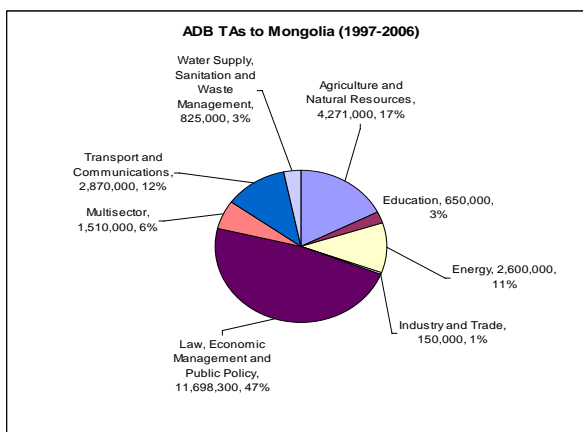
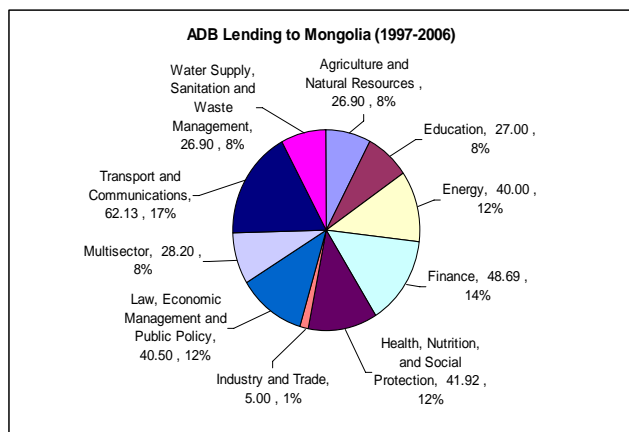
4. During the past five years, Mongolia has witnessed strong economic growth (see Appendix 1 for a review of recent economic performance). Economic growth has been supported mainly by high international copper and gold prices and by large foreign direct investment in the mining sector. Real GDP is projected to grow by 9% in 2007, similar to the growth rate in 2006, and high rates of growth are forecast to continue in 2008. Inflation has been on an uptrend (rising from 6% at the end of 2006 to 13% in September 2007) due to expansionary monetary policy, a large increase in civil service wages, and rising import prices. Notwithstanding its favorable rate of growth, Mongolia faces a number of daunting development challenges, related to its landlocked and sparsely populated geographical situation, a narrow industry base, harsh climate (temperature ranging from -40C to +40C), urban pollution, chronic rural poverty (of herders), and a lack of institutional and human capacity. In addition, there are several constraints to private sector led growth. These include infrastructure bottlenecks which contribute to the high transport costs, expensive and scarce financing, distortionary taxes and a narrow tax base, weak legal enforcement, and the narrow and vulnerable economic base.

5. A new National Development Strategy is under formulation. A number of sector and thematic strategies are being formulated to support that process. These include, *inter alia*, an Infrastructure Development Strategy, a Medium-term Health and Education Strategy, and a Medium-term Public Debt Management Strategy. In addition, various institutional capacity development efforts are under way with the support of Mongolia’s external development partners.

6. A change in Government has taken place in November 2007. The Parliament has appointed a new Prime Minister, who will form a new “care-taker” Government. The next general elections are scheduled for mid-2008.

C. ADB’s Country Strategies and Programs and 2002 CAPE Findings

7. Mongolia was eligible for Asian Development Fund (ADF) funding during the past decade. Over the CAPE period (1997-2006), ADB approved \$347 million in 24 public sector loans and \$24.6 million in 48 technical assistance (TA) projects. The sectoral distribution of the public sector loans and TAs are shown in the charts below. A list of all projects/programs and TA approved by ADB is presented in Appendix 2.



8. **Country Strategies and Programs.** ADB's operations in Mongolia have been guided by a series of country operational strategies (COSs) in earlier years, the 2006 CSP (covering 2006-2008), and 5 CSP Updates (covering 2002-2009). Key aspects of the above country strategies and programs are summarized below (See Appendix 3 for more details).

- **The 1994 and 1998 COSs.** ADB's first country operational strategy (COS) established in 1994 sought to stabilize the economy from the sudden transition and economic recession and crises in the early 1990s, redefine the role of Government, liberalize the trade and price regimes, privatize state assets, and reform the financial, legal, and regulatory systems. The second COS of 1998 provided a broad framework to facilitate the transition of the country's economy from central planning to one based on market-driven principles. The main strategies were: (i) creating an environment in which a competitive, efficient market economy can flourish; (ii) developing the human resource skills necessary for a market economy; and (iii) developing the physical infrastructure needed for a market economy.
- **The 2000-2002 COS.** The strategy continued to support the transition process by: (i) creating an environment in which a competitive and efficient market economy can flourish, (ii) developing the human resources and skills needed for a market economy, and (iii) developing the infrastructure needed for a market economy. The COS emphasized efficient resource use, promotion of competitive private markets, and a fiscally and environmentally sustainable growth, all to be achieved through investments in physical infrastructure.
- **The 2002-2006 CSP Updates.** More emphasis was accorded to poverty reduction through a strategy that was centered on promoting employment creation and improving provision of essential social services for the poor. ADB operations focused on establishing an environment conducive to sustainable private sector-led growth, and improving provision of social services for the poor by according priority to restructure the institutional framework and social service financing and delivery mechanisms.
- **The 2006–2008 CSP and its Update.** The 2006 CSP, as one of the first result-based CSPs, aimed to: (i) broaden and sustain growth, (ii) enhance opportunities for the poor, (iii) overcome constraints to private sector, and (iv) improve access to public services by the poor. Priority sectors for ADB intervention included agriculture, transport, education, health, and urban development, and public sector reform.

9. **The 2002 CAPE.** When Mongolia joined ADB in 1991, its economy was in crisis and the country was undergoing significant changes on many fronts at once. Transition required a transformation of institutions, policies, the economy, and the relations between citizens and the state. Unemployment was high, poverty levels soaring, and the nation's physical infrastructure, particularly its power and heating supply, were on the verge of collapse. ADB supported Mongolia's transition process with loans worth \$505 million approved between 1991 and 2001 for 25 projects in the agriculture, education, energy, finance, health, industry, telecommunications, transport, and urban development sectors. An additional \$49 million was approved for TA grants in the same sectors and in support of governance reforms. The 2002 CAPE reviewed the results of the first decade of ADB assistance to Mongolia and concluded that: (i) ADB's economic, thematic, and sector work provided insights into a broad range of economic and sector issues and trends; although the results of these studies, however, were not well used in formulating country operational strategies, or for country program management and design of capacity building assistance; and (ii) that ADB's overall program and portfolio performed well, despite fiscal constraints that delayed implementation, and made a significant contribution to the transition process of Mongolia. For more details of the first Mongolia CAPE findings, see Appendix 4.

D. Proposed CAPE: Objective and Scope, Methodology, Approach, Report Format, Dissemination, and Sector Assessments

10. **Objective and Scope.** The main objective of the CAPE is to assess the results of ADB's assistance to Mongolia and to identify the key factors that contributed to the outcomes of ADB's assistance program in the country for the period of 1997-2007. This will provide evidence-based findings to identify lessons and issues and make recommendations to help guide the formulation of the new ADB partnership strategy for Mongolia. The CAPE is timed and designed to provide inputs for the formulation of ADB's Country Partnership and Strategy, planned for 2008/early 2009. While the CAPE focuses mainly on ADB's performance in the past, the findings will be interpreted in light of current challenges and opportunities. For example, the CAPE will examine the extent to which ADB should maintain, narrow or widen its strategic focus, whether the results of any areas of assistance suggest that support should be discontinued or phased out, or provide opportunities for improving ADB's project design and implementation, and it will identify ways in which the partnership between Mongolia and ADB can be strengthened. Consultation with EARD sector divisions and the discussions held during a CAPE reconnaissance mission (second week of November 2007), have suggested a need to focus the evaluation on the performance of ADB assistance in the urban, education, transport and financial sectors, as well as on crosscutting issues such as governance, capacity development, environment, and private sector development.

11. **Approach.** The CAPE will follow ADB's guidelines for the preparation of a country assistance program evaluation report.² It will be organized along the lines of assessments of ADB assistance in the main sectors. It will combine a top-down assessment of ADB performance as a whole, with a bottom-up assessment of ADB performance in the key sectors. The top-down assessment will apply the standard evaluation criteria, including: (i) ADB's positioning (sub-criteria including relevance and alignment, selectivity, sequencing and continuity); (ii) ADB's contributions to development results (results and their likely sustainability, impact, synergies, focus, value addition, cross-fertilization); and (iii) ADB performance (responsiveness, suitability of ADB policies, systems and lending instruments, support to institutional capacity, portfolio performance, client responsiveness, decentralization and resident mission effectiveness).³ ADB's bottom-up assessment will examine the performance of lending and non-lending assistance in the key sectors by assessing its relevance, effectiveness, efficiency, impact and sustainability. Contribution to ADB themes such as capacity development, private sector development, environment improvement, regional cooperation, and gender equity will also be assessed. A detailed CAPE evaluation framework is presented in Appendix 5.

12. **Methodologies.** This CAPE will draw on as wide a set of information sources as possible. This will include both primary and secondary data drawn from a literature review, a perception survey of key informants, project site visits, and detailed stakeholder consultations. It will build on past project evaluations (PPERs, TPERs) and on the results of special evaluation studies such as social safeguards, effectiveness of ADB's TA, resident mission policy, policy-based lending, private sector development and operations, ADB support to law and justice, and urban sector strategy and operations.

13. **Report Format.** The CAPE report will be short and succinct, and will be supported by background papers and sector assessments that will be publicly disseminated. The format of

² ADB. 2006. *Guidelines for the Preparation of Country Assistance Program Evaluation Report*. Manila. Available: <http://www.adb.org/Documents/Guidelines/Country-Assistance-Program/guide-preparation-0206.pdf>.

³ The CAPE will also examine the progress made in mainstreaming the Paris Declaration commitments (on ownership and managing for results and pillars of alignment and harmonization) in Mongolia.

the CAPE will be in line with that prescribed in the CAPE guidelines, suitably modified to reflect the findings and recommendations for this particular country case.

14. **Participation and Dissemination.** The CAPE will be conducted in a transparent, consultative, and partnership-oriented fashion, to encourage learning. OED will encourage Government and ADB operations staff to participate in all facets of the evaluation as much as possible. OED will provide open-access to evaluation material drafts as these become available. All of the background reports (including the Evaluation Approach Paper) will be disseminated publicly, subject to these reports having been subject to internal quality control and review by the operational departments.

15. **Sector Assessments.** To inform the preparation of this CAPE, several sector assessments are being prepared. These include rapid assessments of ADB assistance to the following sectors: transport, finance, social, urban development, agriculture and rural development, and governance. A list of the challenges that ADB, in partnership with the Government and other stakeholders, has been addressing at the sector level is presented in the attached CAPE Planning Matrix (Appendix 6).

E. Resource Requirements and Time Schedule

16. A team-based approach is being adopted to support the implementation of this CAPE. This will enable performance to be assessed by specialists with complementary technical and analytical backgrounds. It will also enable the CAPE to be completed in an expeditious manner. A team of OED staff and consultants will provide inputs to CAPE. Various sector assessments, including those works already budgeted and in progress, will be carried out. The OED team will be composed of a senior evaluation specialist (team leader), supported by a team of OED sector/theme evaluation specialists/consultants, and a team of national officers. Different OED staff will be responsible for the inputs for various parts of this CAPE, as in the table below that shows their areas of contribution to the CAPE. A budget for the consultants required is also proposed for approval in the third column of the table. Proposed terms of reference for the consultants are given in Appendix 7. A summary of the budget required for the preparation of the CAPE, which is for OED's internal authorization purpose, is presented in Appendix 8.

Table: CAPE Resource Requirements

OED Staff	Staff Inputs	Consultant Assistance Required
R. Adhikari, Director, OED2	<ul style="list-style-type: none"> ▪ Provides overall guidance to the CAPE team 	
C. Kim, Mission Leader, OED2	<ul style="list-style-type: none"> ▪ Plans and coordinates the CAPE task and leads the OEM ▪ Rapid financial sector assessment ▪ Rapid agriculture sector assessment ▪ Prepares CAPE report 	<p>(work completed)</p> <ul style="list-style-type: none"> - National consultant: 2 person-months (PMs) - International consultant: 2.2 PMs - 2 National consultants (macro & fiscal): 3 PMs
M. Gatti, Sr. Evaluation Specialist, OED2	<ul style="list-style-type: none"> ▪ Rapid urban sector assessment 	<ul style="list-style-type: none"> - International consultant: 1 PM - 2 National consultants (water & environment): 2.3 PMs

OED Staff	Staff Inputs	Consultant Assistance Required
N. Singru, Evaluation Specialist, OED2	<ul style="list-style-type: none"> ▪ Rapid transport sector assessment ▪ Supplementary assessment of trade facilitation 	(work-in-progress) - 2 National consultants (survey & policy): 2.2 PMs
P. Robertson/S. Bayley, Evaluation Specialist, OED1	<ul style="list-style-type: none"> ▪ Assessment of the performance of Governance Reform Program I & II 	(work-in-progress)
J. Tubadeza, Sr. Evaluation Officer, OED	<ul style="list-style-type: none"> ▪ Rapid social sector assessment 	- International consultant: 1.4 PMs
J. Dimayuga, Evaluation Officer, OED2	<ul style="list-style-type: none"> ▪ Overall assistance to the CAPE preparation 	

* Budgets of the work either completed or in progress have been separately approved.

17. The milestones for the CAPE preparation schedule, intending to provide timely inputs to the CPS Team (preliminary findings provided for CPS Initiating Meeting/Informal Seminar and the final CAPE provided in time for the CPS mission), are indicated below:

<u>Milestones</u>	<u>Timing</u>	<u>OED Inputs to EARD/CPS Team</u>
• Evaluation Approach Paper	- Dec 2007	Final CAPE Approach
• Main CAPE Mission	- March 2008	Aide Memoire and mission BTOR
• Draft CAPE Report	- I May 2008	
• Internal Peer Review	- I-II May 2008	
• Interdepartmental and Government Review	- II-III May 2008	Draft CAPE report & comments at Initiating Meeting/Informal Seminar
• Country Consultation	- I June 2008	Aide Memoire and mission BTOR
• DG-level Meeting	- I July 2008	Final CAPE/recommendations
• Editing	- II July 2008	
• Approval by DG/OED	- III July 2008	CAPE for Management Response
• Submission to DEC	- III July 2008	Final inputs for the CPS mission

18. Two OED Principal Evaluation Specialists, Mala Hettige and Suganya Hutaserani, will act as peer reviewers for this CAPE.

cc: Director Generals, EARD; PSOD
Deputy Director General, EARD
Directors, EARG; EAAE; EASS; EAEN; EATC; OED1
Country Director, MNRM
M. Jayawant/S. Rosenthal/L. Vanjildorj, MNRM; OED CAPE Team Members (M. Gatti, P. Robertson, N. Singru, J. Bayley, J. Tubadeza, J. Dimayuga); Peer Reviewers (M. Hettige, S. Hutaserani); OED CF

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