

TECHNICAL ASSISTANCE COMPLETION REPORT

Division: ECAE

TA No. and Name: TA No. 3686-MON Preparing the Crop Production Project			Amount Approved: \$500,000	
			Revised Amount: \$496,000	
Executing Agency: Ministry of Food and Agriculture (MFA)		Source of Funding: JSF	TA Amount Undisbursed: \$12,057.44	TA Amount Utilized: \$483,942.56
Date			Completion Date	
Approval: 23 July 2001	Signing: 5 September 2001	Fielding of Consultants: 25 February 2002	Original: 28 July 2002	Actual: 28 February 2003 ¹
			Closing Date	
			Original: 28 July 2002	Actual: 14 September 2004
Description				
Performance of the agriculture sector, specially the crop sub-sector, declined drastically after the fall of the former Soviet Union. Collapse of the system of subsidies and the lack of skills and knowledge to manage farms under a market economy resulted in massive unemployment and an escalation in rural poverty. The Government accorded high priority to restoring agriculture sector performance and reducing rural poverty. Particular focus and attention were given to the crop sector, especially to the horticulture sub-sector, as a key to private sector-led growth. This was also because the sector could provide improved job opportunities and incomes to a large number of migrants living in local cities/towns and the periphery of main cities like Ulanbataar, who were identified as one of three major poverty groups (other groups are subsistence, semi-nomadic herder families and the aged and disabled). The specific strategy to support the horticulture sub-sector was elaborated in the Government's 'Green Revolution' Program (GRP) approved in 1996 which provides (i) mechanized equipment for horticultural activities, e.g., tractors and irrigation equipment, subsidized at half the cost; (ii) free vegetable seeds to vulnerable groups, and (iii) technical assistance for horticulture development. To further develop the crop sub-sector, the Government sought ADB's assistance to formulate an investment project.				
Objectives and Scope				
The objective of the Technical Assistance (TA) was to assist Government to prepare a project for the development of the crop sector, focusing on interventions that contribute most to poverty reduction, including: (i) strengthening agricultural data collection and information systems; (ii) strengthening crop-based farming systems, especially small farmer irrigated agriculture, and cereal production; and (iii) the promotion of improved market linkages.				
Evaluation of Inputs				
While the TA was implemented largely as designed, TA inputs exceeded the estimates: A total of 32.1 person-months (pm) (19.2 pm of international and 12.9 pm of domestic) were provided, against the original estimates of 27 pm (16 pm of international and 11 pm of domestic). The consultants' inputs covered the fields of crop, livestock, irrigation, agribusiness, social, financial, and environmental aspects, as well as rural credit. These were broadened to provide technical advice on the type of agronomical measures required for dryland cropping conditions, to finalize field work related to horticulture practices, and to address the ADB's and Government's comments on the Draft Final Report and to prepare the Final Report.				
The TA was carried out in two phases during the four-month implementation period. The first phase covered the analysis of the status, opportunities, and constraints in the crop sector based on review of previous studies, lessons learned from other projects, and extensive community consultations. The second phase covered the feasibility-level design of an investment project. Implementation of the TA was also characterized by extensive participatory rural appraisal fieldwork, including (i) interviews with 50 key informants from within the community; (ii) semi-structured interviews with farming households; (iii) six workshops at district and regional levels with 100 participants per workshop; and (iv) a national planning workshop, with more than 150 officials of the government, banks, NGOs, training and research institutes, agribusiness, farms and farmers' associations.				
The TA resulted in the outputs largely as originally expected (see below for outputs), hence TA inputs are considered adequate.				
Over the four-month implementation period, ADB fielded three review missions. The project steering committee and the advisory committee/working group in the Ministry of Food and Agriculture (MFA) were established to provide guidance to the consultants, particularly on policy issues. Performance of the MFA in terms of supervision and guidance was satisfactory. The provision of adequate counterpart staff and office facilities was considered adequate.				
Evaluation of Outputs				
The report for the first phase provided an analysis of the opportunities and constraints facing the crop sub-sector, in relation to cereal crop production, horticulture, irrigation, input supplies, agribusiness for processing, storage, distribution, marketing, credit, and the policy framework. The report also identified possible improvements to current crop production techniques, potential new crops, and innovative farming systems; and presented the framework for the proposed project, along with an initial social assessment.				
The second phase resulted in the formulation of a project estimated to cost \$22.5 million, of which \$14.0 million was envisaged for ADB financing. The goal of the project was to increase crop production in the central and eastern cropping regions, through				

¹ Submission of consultants' Final Report.

introduction of improved farming practices, thereby contributing to the reduction of poverty, increased food security, and environmental sustainability. The Project had four components: (i) farm development; (ii) agribusiness; (iii) capacity building; and (iv) project management. A line of credit to finance activities under components (i) and (ii) was proposed. The Draft Final Report was submitted in June 2002, revised according to the comments received from ADB and MFA, and discussed at the final tripartite meeting held on 2 July 2002. Both the ADB mission and MFA considered the Final Report acceptable, and based on which, the ADB mission prepared a draft Report and Recommendation of the President (RRP).

At the subsequent interdepartmental review of the draft RRP, however, it was noted that the absence of a coherent and integrated strategy linking the Project's proposed credit line with broader financial sector issues weakened the rationale for the Project. While the lack of affordable long-term financing and saving instruments was clearly seen as a constraint in supporting the development of the agriculture sector, it was also felt that the initiative for agriculture sector credit must be designed taking into consideration Mongolia's financial sector issues, including the limited role that capital markets, insurance and leasing operations play in the economy, limited access to capital in general, and the prevalence of short-term and asset-based lending with prohibitive interest rates. It was felt that the Project's key instrument, agricultural credit, was premature, and the Mission was requested to redesign the Project. The need for redesign of the Project also coincided with a decision to reduce ADB financing for the Project from \$14.0 million to \$6.5 million, as a consequence to the reduction in the allocation of ADB's resources to Mongolia in 2003.

The Project Team responded to the decision by refocusing the Project to support irrigated horticulture. The redesigned Project had four components: (i) rehabilitation of irrigation schemes, (ii) seed production development, (iii) capacity building, and (iv) project management. Subsequent internal review of the Project, however, found that there were not enough information and technical analysis to support such a quick redesign, as the revised draft RRP was unable to identify the potential irrigation schemes for rehabilitation in sufficient detail, including location, ownership, operational and financial status, and other aspects relating to environmental and social safeguard policies. In addition, there were other, more fundamental questions about the Project's rationale, including whether the proposed support for crop/horticulture constitutes support for import substitution and if so, whether such support is justified. Questions were also raised whether there was sufficient demand to support growth in the horticulture sub-sector and if the available marketing infrastructure was adequate.

Given the increasingly limited resources that ADB can mobilize for Mongolia, its assistance must be selective and result-oriented. For the proposed Project to meet this requirement, more comprehensive and updated sector analysis was necessary. Accordingly, it was decided to drop the Project from the pipeline, and, instead, to undertake a comprehensive sector review as AOTA for the Agriculture Sector Strategy Study² in 2004.

Overall Assessment and Rating

TA was designed to support the Government's development strategy that heavily favored restoration of crop/ horticulture sector, without a comprehensive sector diagnosis. The lack of strategic analysis which should have preceded the TA formulation — for example, whether ADB support should be focused on livestock or crops, or on the nomadic herders in the western region (where the poverty incidence is highest) or the migrants in the peri-urban area — critically weakened the project rationale, making it opportunistic, rather than strategic. As a result, despite substantial resources spent, both in terms of TA resources and staff/administrative resources, the TA did not result in an investment project. Although part of the TA outputs provided useful information for the follow-on AOTA for the sector strategy, the utility of the PPTA was far less than expected, and clearly did not match the resources spent. The TA is rated, therefore, unsuccessful.

Major Lessons Learned

Design of development projects, particularly those that address multi-faceted rural development and poverty reduction, must be based on a clear and focused sector strategy. Such a sector strategy, in turn, needs to be based on a comprehensive analysis of the sources of economic growth and causes of poverty. In doing so, attention must also be given to the relevant and crucial cross-sector linkages. In a transitional economy like Mongolia, particular attention is needed to analyze the linkage between agricultural credit and the overall financial sector strategy that would enable longer-term financing and saving instruments available on a sustainable and commercial basis, and between the provision of livelihood support for the poor and a broader poverty reduction strategy that would enable education/skill development and address other social issues (e.g., lack of access to basic social services).

Recommendations and Follow-Up Actions

Under the new business process, launched after this PPTA was approved, the TA design procedures are integrated into the process of country strategy and programming. The AOTA for the Agriculture Sector Strategy is ongoing, and is producing a comprehensive analysis of sector constraints and opportunities for development. As part of the ongoing CSP exercise, an analysis of the sources of economic growth and causes of poverty has also been undertaken. Based on these analytical inputs, ADB's agriculture sector strategy is currently being formulated. A new PPTA for an Agriculture and Rural Development Project is in the pipeline for 2005, and an investment project loan is earmarked for approval in 2007. Design of this new project will be based on the comprehensive sector strategy, taking all the lessons learned under this PPTA on board.

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² TA No. 4359-MON, approved on 12 July 2004 for \$350,000.