

Ex-Ante Evaluation (for Japanese ODA Loan)

1. Name of the Project

Country: Mongolia

Project: Social Sector Support Program

Loan Agreement: June 30, 2009

Loan Amount: 2,894 million yen

Borrower: The Government of Mongolia

2. Background and Necessity of the Project

(1) Current State and Issues of Development in Mongolia

Although Mongolia's economy experienced negative growth in the years immediately after the introduction of a market economy in 1990, the economy saw sustained growth from 1994, with the exception of 2000-2001, when snow damage had a negative impact on the economy. GDP growth stood at 8.6% in 2006, 10.2% in 2007 and is expected to be 8.9% in 2008.

However, Mongolia's economy has been significantly harmed by the precipitous drop in copper prices, its main export, driven by the global financial crisis which started in 2008. The country's foreign reserves amounted to about 514 million US dollars as of March 10, 2009, an approximately 47% drop compared to 2007. Mongolia's fiscal 2009 (same as calendar year) budget deficit was about 6% of GDP (about 395.7 billion Tg) when the budget was initially established, but a further decline in tax revenue was expected to increase the budget deficit to 12% of GDP. Given these conditions, the Mongolian government requested emergency assistance from the IMF, and as a result of discussions with the IMF from late January 2009, the revised budget was approved by Mongolia's parliament, with a budget deficit of about 5.4% of GDP (about 341.2 billion Tg). In response, in April 2009 the IMF approved a 155.3 million SDR (about 229.2 million US dollars) loan under an eighteen-month stand-by arrangement. At the request of the IMF, the World Bank, ADB and the Japanese government also announced that they would provide financial aid.

(2) Development Policies in Mongolia and the Priority of the Project

As a result of its discussions with the IMF, the government of Mongolia revised its 2009 budget in March 2009 to reflect the following changes: (1) substantial cuts in current expenditures and investments; (2) in current expenditures, sharp reductions in the ministries' goods and service costs; (3) in investments, reductions in all new projects and existing projects and maintenance costs kept at status quo; and (4) in the social welfare budget, national budget expenditures will be kept unchanged and development fund expenditures will naturally decline with no new expenditures from

the second quarter, depending on the balance of the development fund. The Social Sector Support Program (below, "this plan") integrates a policy matrix in the social protection area with the aims of (1) protecting the poor population affected by the fiscal crisis and (2) reinforce the safety-net in the event of future similar fiscal crisis. This project is consistent with Mongolia's development policy and is based on discussions with Mongolia.

(3) Japan and JICA's Policy and Operations

Japan's Country Assistance Program for Mongolia (November 2004) identifies the following areas as priority areas: (1) support for system development and human resource training to facilitate the transition to a market economy; (2) regional development aid (support for specific model regions, primarily regional development areas, and support for the restoration of pasture land and revitalization of the agricultural and ranching industries); (3) support for environmental conservation (conservation of the natural environment and appropriate use of natural resources, environmental countermeasures for the capitol Ulaanbaatar); and (4) support for development of infrastructure to promote economic activities. Based on government policies, thus far JICA has prioritized basic education in the human resource development area and has provided support through grant aid and technical cooperation. In the regional development area, JICA has cooperated to maintain and improve social services to reduce poverty, and has supported urban development plans in Ulaanbaatar in the infrastructure development area.

(4) Other Donors' Activity

ADB approved its Social Sector Support Program (about 60 million US dollars) in June 2009. The World Bank authorized a Development Policy Credit (DPC) (about 40 million US dollars) in June 2009. Disbursement of 20 million US dollars is planned for 2010.

(5) Necessity of the Project

This project supports the action plans in the four fields of public finance, social protection, mining and banking that the Mongolian government discussed with the World Bank and the ADB and that the government needs to pursue. The plan is focused on social protection targeting the poor, who have been hurt by the fiscal crisis. Accordingly, the need for this project is high. JICA has prepared policy matrixes for the two areas of education and urban development, in which it has cooperated in the past, on the premise that ADB would provide joint financing.

3. Project Description

(1) Project Objective(s)

In cooperation with ADB, this project is intended to protect the poor and strengthen the country's ability to handle future fiscal crises by improving basic social services for the poor,

who have been hurt by the fiscal crisis, and supporting reform to ensure spending in the social sector. This would (1) improve Mongolia's public spending management and (2) contribute to the promotion of social development.

(2) Project Component(s): This project will take the following policy actions to achieve the objectives.

①General condition	Implementation of macro-economic stabilization plan
②Social Welfare	Social welfare reform to improve efficiency and protect the poor
	Reduction of hospital admissions through expansion of the drug discount system under the state health insurance scheme
	Targeted subsidies for state health insurance contribution through household surveys
③Health Sector	Establishment of emergency mechanism to ensure supply of essential vaccines, medicines and other medical supplies in case of acute shortages
	Prevention of malnutrition in children by expanding the coverage of household micronutrients fortification
	Reduction of out-of-pocket health care expenses for the poor by introducing medical card program for the poor
④Education Sector	Targeted subsidies for secondary level textbooks
	Enhancement of in-service teachers training system with expansion of new teaching methods which support children's development
	Establish evaluation system for teachers that is consistent with new educational standard
⑤Urban Sector	Revision of the UB Master Plan, including Ger areas, and prioritization of programs to ensure basic services and improve living conditions
	Capacity building and development of teaching materials and guidelines to improve living conditions in Ger areas

(3) Estimated Project Cost (Loan Amount)

2,894 million yen

Co-financed amount: About 60 million US dollars provided by ADB (of which 16.9 million US dollars consists of a grant)

(4) Project Implementation Structure

1) Borrower: Government of Mongolia

2) Executing Agency: Ministry of Finance

(5) Environmental and Social Consideration/Poverty Reduction/Social Development

1) Environmental and Social Consideration

- ① Category: C
 - ② Reason for Categorization: The program is categorized as Category C, because it falls under a sector (financial aid) in which no particular environmental effects can be foreseen, and also because it does not have characteristics that make it likely to cause any impact, nor is it located in an area where it can be easily affected, as identified in the Environmental and Social Contributions Guidelines (established in April 2002).
 - ③ Environmental Permit: None in particular
 - ④ Anti-Pollution Measures: None in particular
 - ⑤ Natural Environment: None in particular
 - ⑥ Social Environment: None in particular
 - ⑦ Other / Monitoring: None in particular
- 2) Promotion of Poverty Reduction: This program includes measures to strengthen the targeting of the poor population for social welfare, health care and educational services, and also improves the living environment in the Ger area in which much of the poor population lives. Accordingly, this plan would have a direct impact on the poor.
- 3) Promotion of Social Development (gender perspective, countermeasures for AIDS and other infectious diseases, participatory development, considerations for people with disabilities, etc.): This program includes appropriate targeting for and improvements in social welfare, health care and education services.
- (6) Collaboration with Other Donors: Joint financing with ADB
- (7) Other Important Issues: None in particular

4. Targeted Outcomes

When evaluating this project, the achievement of policy actions will be confirmed.

In addition, the operation and effect indicators listed below will be used to evaluate the effect of the project, after revising the baseline and targets in accordance with the national database, which is due to be complete at the end of 2009.

(1) Performance Indicators (Operation and Effect Indicator)

Indicator	Baseline (Actual Value in 2008)	Target (2012) 【Expected value 2 years after project completion】
Poverty rate	35.2% (2007-2008)	Same or lower (2010-2011)
Monthly consumption value of poor population	44,589Tg (2007-2008)	Same or higher (2010-2011)

Government subsidies for drug discount program	884 million Tg	Same or higher
Government subsidies for state health insurance	8.1 billion Tg	Same or higher
Percentage of children suffering malnutrition	19.6% (age 5 and below, 2004)	Decrease
Diffusion rate of medical card in poor population	0%	Increase
Percentage of students receiving free textbooks in secondary education courses	9%	Maximum of 20%
Rate of attendance for in-service teacher training	60-80%	Same or higher
Number of teacher instruction guides related to new teaching methods	1,200	Increase
Number of community organization involved in Ger area development	0	7

5. External Factors and Risk Control

Changes in the economic environment affecting Mongolia

6. Lessons Learned from Past Projects

Co-financed projects implemented in the past have shown that it is important to conduct in-depth information exchanges with the relevant agencies, from the appraisal stage to the monitoring and supervision stage. Based on this lesson, the status of implementation of this project is expected to be monitored in close coordination with ADB, the co-financing institution.

7. Plan for Future Evaluation

(1) Indicators to be Used

1. Poverty rate
2. Monthly consumption value of poor population
3. Government subsidies for drug discount program
4. Government subsidies for state health insurance
5. Percentage of children suffering malnutrition
6. Diffusion rate of medical card in poor population

7. Percentage of students receiving free textbooks in secondary education courses
 8. Rate of attendance for in-service teacher training
 9. Number of teacher instruction guides related to new teaching methods
 10. Number of community organization involved in Ger area development
- (2) Timing: Two years after the plan is completed