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Evaluating and improving international assistance programmes: Examples from Mongolia's transition experience

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1.
Introduction

In 1990 the political and economic system in Mongolia made an abrupt, but peaceful change from a communist system to a democratic and capitalist system. Before 1990, Mongolia had been a close follower of the Soviet Union and had been the first country to adopt the Soviet communist system after centuries of Chinese domination. Even though officially Mongolia always remained an independent state, the country was for a long time regarded by many as the unofficial 16th republic of the Soviet Union. In those years, the Soviet leadership had a big say in Mongolian political matters and Mongolia was heavily subsidized by the Soviet Union. At the end of the 1980s, 30% of Mongolian GDP came directly from Moscow (World Bank, 1992; Spoor, 1996). With the collapse of the Soviet Union, Soviet subsidies ended abruptly in 1991. After nearly 70 years of Soviet guidance, Mongolia had to stand on its own feet and had to look elsewhere for guidance and money.

The international financial institutions (IFI) and the Asian Development Bank (ADB) were very willing to help Mongolia in its transition to a market economy. Mongolia in its turn received these institutions and other helping organizations and countries with open arms, as the Mongolian government had a very acute budget problem, and the government did not know how to bring about the transition to a capitalist system. Outside expertise was highly valued by the Mongolians, especially in combination with funding.

The policy of the international financial institutions was to combine loans – for instance balance of payment support – with (technical support) programmes to bring about a structural change of the system. These loans were generally accompanied by conditions. If the conditions were not met, the loans could be withheld. As the Mongolian government did not have the expertise to transform the system, the advisors of the international organizations were very welcome to assist Mongolia in this task, and Mongolia tried to implement the prescribed policies and programmes faithfully. As a result, Mongolia soon had the doubtful privilege of being one of the most well-supported countries relative to its GDP.

Table 1-1. Mongolian GDP, revenues, total expenditures, net international borrowing and net international lending.

	GDP	GDP	Revenue	Total expenditures	Net international lending /borrowing	Net international lending /borrowing
Year	Billions US$	Billions Tugrik	Billions Tugrik	Billions Tugrik	Billions Tugrik	Percent of GDP
1990	2.576	12.031	5.295	6.711	-1.416	-11.770
1991	2.713	21.739	8.965	10.797	-1.832	-8.427

1992	1.517	54.374	11.800	16.966	-5.166	-9.501
1993	0.759	223.984	56.812	82.972	-26.160	-11.679
1994	0.904	372.932	85.745	114.823	-29.078	-7.797
1995	1.410	632.573	140.901	173.265	-32.364	-5.116
1996	1.355	743.286	160.435	211.231	-50.796	-6.834
1997	1.212	957.200	212.143	287.648	-75.505	-7.888
1998	1.118	939.678	225.505	342.146	-116.641	-12.413
1999	1.041	1063.780	251.700	364.556	-112.856	-10.609
2000	1.089	1172.699	351.396	422.650	-71.254	-6.076
2001	1.169	1283.146	429.499	489.730	-60.232	-4.694
2002	1.273	1413.032	477.049	550.481	-73.432	-5.197
2003	1.448	1660.365	553.888	615.753	-61.864	-3.726
2004	1.814	2152.095	713.113	752.475	-39.361	-1.829
2005	2.307	2779.578	837.858	764.597	73.261	2.636
2006	3.421	4027.559	1360.410	1054.924	305.485	7.585
2007	4.235	4956.647	1880.489	1749.701	130.788	2.639
2008	5.607	6555.569	2170.375	2466.774	-296.400	-4.521
2009	4.574	6590.637	1992.986	2321.600	-328.614	-4.986
2010	6.244	8414.505	3073.309	2974.150	99.158	1.178
2011*	8.755	10670.200	4114.716	4017.635	97.081	0.910
2012*	11.156	12911.120	4636.438	4886.257	-249.819	-1.935

Source: IMF World Economic Outlook Database, September 2011.
* Estimates start after 2010.

The road Mongolia embarked upon was one of rapid transition[1]. At that time it was thought by the international organizations that an attempt at a rapid transition would lead to the shortest period of transition (and hence, the shortest period of pain from the effects of the transition), and the gains of capitalism and a market economy would come fastest to a country. Programmes for stabilization, liberalization, and privatization were started simultaneously in Mongolia, while at the same time the political system was transformed to a – real – democracy. The country entered a very tumultuous decade[2]. Due to the abrupt end of the Soviet subsidies, the social, agricultural, educational and health systems more or less collapsed, especially in the outlying regions. Scarcity of food and merchandise was universal during the first years of the transition, and many Mongolians came to live below the poverty line.

Table 1-2. Poverty data of Mongolia

Indicator	1995	1998	2002	2008
GINI Index[3]	33.2	30	32.84	36.52

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[1] This strategy is also referred to as 'shock therapy'. See any standard account of Shock-therapy transition approaches – for example Stiglitz (1999). With regard to Mongolia's version of shock therapy see Pomfret (1999) and Nixson and Walters (2000).

[2] The early transitional period is described by Marshall et.al. (2008) as '*a cathartic, but crucially, also a chaotic time. Reform was unrelenting but also poorly executed and inappropriately phased. Over time, the policy approach has become more consistent and policy makers have remained loyal, regardless of changes of government, to an avowedly neo-liberal agenda*'.

[3] The Gini index measures the extent to which the distribution of income among individuals or households within an economy deviates from a perfectly equal distribution (an index of 0 represents perfect equality).

Poverty headcount ratio at national poverty line*	36.3	36	61.1	35.2
Poverty headcount ratio at rural poverty line*	33.1	33	69.7	46.6
Poverty headcount ratio at urban poverty line*	38.5	39	54.1	26.9

Source: World Bank, *Data by country* (2012).

* as % of population

Map 1.1. Sum[4]-level Poverty Headcount Map
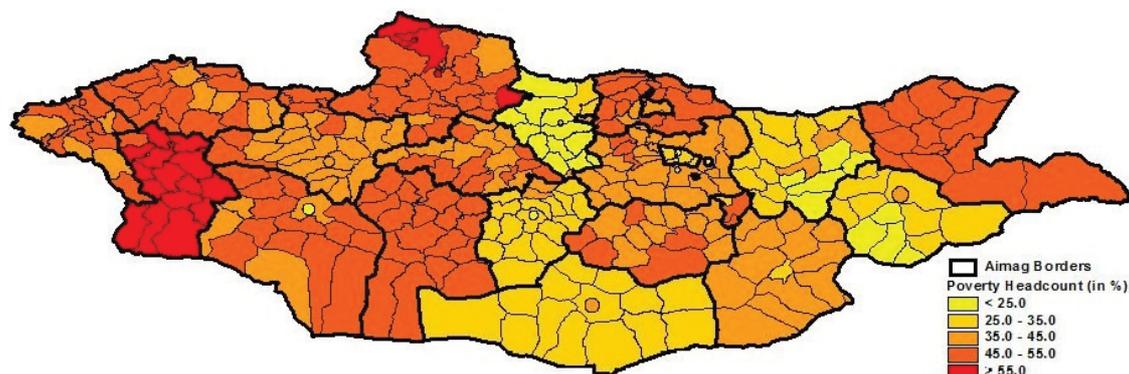
Source: NSO & UNDP (2009).

Unfortunately, the international financial institutions had underestimated the time and effort needed to bring about a system transformation. The fact that the ex-communist countries had no structures upon which to build capitalist institutions had been overlooked at the beginning of the 1990s. That was a very serious complicating factor in virtually all the programmes of the international organizations. Mass privatizations, without a good legal system on which to rely, are a perilous way to go and may lead to great inequality, as some will accrue all, and others will end up empty-handed. Liberalization also requires a good institutional structure, otherwise the liberalizations will end in a Wild West situation. The fact that these institutional arrangements were not yet in place when privatizations, liberalization, and stabilization commenced, led to unwanted consequences in Mongolia. Just to give an example: the goal of privatization is that firms operate more efficiently. Instead of gains in efficiency, however, factories were bought by Mongolians who closed down the factories and sold the whole inventory to China. This led to widespread unemployment – and thus poverty – in the areas concerned. Only those who sold the newly privatized assets profited. There were no gains in efficiency. Moreover, many other policies tended to have similar unforeseen outcomes.

The conditions under which the IFI gave loans to Mongolia were such that the risk of failing programmes lay unilaterally with Mongolia. The IFI prescribed the policies, programmes, and conditions, and provided the technical advisors to help implement the policies. If, however, the policies failed, Mongolia was going to be left with large debts, debts that would still have to be repaid to the IFI. This was an unfavourable situation, but Mongolia had no choice but to accept – after negotiations – the terms of the various agreements, as it needed money and support very urgently. And there was not only the

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[4] The *bag* is the smallest administrative unit in Mongolia. Various *bags* form a *sum*. Various *sums* constitute an *aimag*.

financial side of the matter: there were urgent military-strategic reasons to foster a close relationship with the West and the IFI. China has always been regarded by the Mongolians as an oppressor that has an eye on their country and their raw materials. A counterweight against the Chinese interest in Mongolia and against the population pressure on the other side of the border was felt to be urgently needed by the Mongolians. That indebtedness accompanies the involvement of the IFI does not bother most Mongolians[5].

Realizing the ignorance of the Mongolian authorities, the lack of knowledge, capacity and expertise in Mongolia, its complete dependence on foreign expertise and funding, and the rapidly increasing indebtedness of Mongolia to the IFI and some countries, the international organizations bore a large responsibility with their programmes and conditions. Not only should they have had the responsibility to prescribe good and effective policies, but they should also have had the responsibility to improve upon their policies as soon as they could. The programmes of the international organizations ended up touching upon every aspect of the economic system and of Mongolian society. Learning as fast as possible from past mistakes should have been a central element of all programmes and policies prescribed.

In this dissertation I have looked into programmes of the international financial institutions in Mongolia with the aim to give advice on how they might be improved. Many international programmes do not have the desired outcomes. My objective was to establish why the actual outcomes were different from the intended outcomes, and how it is possible to improve upon the programmes of international organizations. Another important feature of this dissertation is that it tries to reconstruct parts of what happened in Mongolia during the transition. Using that knowledge, the situation is analysed in order to identify shortcomings in policies and programmes, and in the indicators used to evaluate policies so as to be able to improve upon them. The goal of this dissertation is furthermore, to add to the body of knowledge of Mongolia, as relatively few scholars have taken an interest in this Central Asian transition country, and to gain a better insight into the process of transition in Mongolia. Finally, the goal is to develop instruments based on empirical data and observations. With these instruments, the countries concerned and the international organizations could improve upon their policies, so that they can reach the goals they have set themselves in their programmes and policies.

In Chapter 2 a new explanatory model for policy analysis and evaluation is developed. The reason to look for a new model for policy analysis and evaluation is that, although many programmes of international organizations are well described in advance of their implementation, with clear goals and clear methods and well-identified activities and critical success factors, nevertheless, the outcomes of the programmes are often disappointing, and rarely meet their goals. Using conventional models of policy analysis and evaluation does not shed light on these failures, as conceptual and institutional factors are not sufficiently taken into account. Therefore, a new model is developed, in

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[5] The indifference of the Mongolians is fed by the fact that Mongolia managed to conclude a very favourable deal with Russia (in 2003) over all debts Mongolia had to the ex-Soviet Union. Many Mongolians basically expect the same will happen with the debts to the IFI. For information on the debt settlement see (IMF, 2005a; IMF,2005b; OECD, 2010, and http://www.state.gov/r/pa/ei/bgn/2779.htm).

order to be able to identify the factors that cause policy outcomes to diverge from the intended results.

With this model, scholars can analyse and evaluate government policies or policies of international organizations, and policy makers could use it to improve upon their policies and programmes.

In Chapter 3 problems in international aid programmes are identified. The programmes for the rehabilitation of wells in Mongolia are used as an example to illustrate the possible problems which may arise with international programmes. When international aid programmes are designed, policy makers have to foresee many potential problems in order to forestall them. Not only do policy makers have to take into account the usual steps and problems of designing programmes, but they also have to take into account that their programmes will be implemented in different countries, with different institutional settings, and from different conceptual frameworks. Using the explanatory framework of Chapter 2, categories of regularly encountered pitfalls in international aid programmes are identified in the hope that policy makers will take these pitfalls into account when designing new policies and programmes in order to forestall them.

Chapter 4 analyses Total Factor Productivity (TFP), an indicator that is often used in macroeconomic analyses as an indicator of changes in the efficiency of a country. Usually, international organizations try to use general measures or indicators to compare countries and to evaluate the effectiveness of their policies. The question is whether such indicators really indicate what they should indicate, and whether they do so under all circumstances. In the transition period, many indicators could not actually give a correct indication of the situation of a country, not only owing to the lack of data but also because the indicator could not capture many of the actual developments in transition economies. In Chapter 4, we analyse TFP, because it is regularly used to describe the performance of a country in terms of changes in efficiency. The research question in this chapter is whether the changes in Mongolian TFP were really attributable to increases – or decreases – in efficiency, or whether they could be attributed to other real-world developments. Simulations were used to see what effect real world developments – other than increases or decreases in efficiency – may have had on Mongolian TFP.

In appendix B4 a corollary of Chapter 4 is presented: a new method to calculate TFP is developed in order to forestall some of the problems that arise when TFP is calculated with the Cobb-Douglas function such as is done in Chapter 4. In appendix B4 a function for TFP is derived with an application to Mongolia.

Chapter 5 is an empirical chapter. In a survey, more than 270 Mongolians were asked what their expectations of the transition were in 1990, and what, according to them in 2005, were the outcomes, both for themselves and for society. In order not to lead the answers of the respondents, the researchers only asked open questions. As there was no methodology available to analyse the qualitative data quantitatively, the researchers developed a new methodology to analyse the enormous amount of qualitative data from the open questionnaire in a consistent and quantitatively meaningful manner. Therefore, this chapter both details the methodology to cope quantitatively with a large amount of qualitative data and provides an insight into what the Mongolians had expected at the

beginning of the transition and how they evaluated or perceived the outcome of the transition 15 years later. For policy makers and others this research offers an interesting change of perspective and an alternative indicator with which the outcome of the transition can – partly – be evaluated.

In Chapter 6 the conclusions are presented. The focus in the conclusions will be on how policies, models and indicators could be improved, and what happened during the transition in Mongolia.