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

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Publication date
2013

Summary

Chapter 1 – Introduction
In 1990 the economic and political system in Mongolia made an abrupt, but peaceful change from a communist system to a capitalist system and a democracy. Before 1990 Mongolia had been a close follower of the Soviet Union for nearly 70 years. After the system change, Mongolia had to look elsewhere for guidance and money. The international financial institutions (IFI), the Asian Development Bank and some donor countries were very willing to help Mongolia in its transition to a market economy. They combined loans with (technical support) programmes and conditionality to bring about structural changes. Mongolia soon became one of the most well-supported countries relative to its GDP.

The road Mongolia embarked upon was the road of shock therapy. At the time it was thought that a rapid transition would lead to the shortest period of transition. Programmes for stabilization, liberalization, and privatization were started simultaneously in Mongolia, while at the same time the political system was transformed to a democracy. However, in their programmes, the IFI had overlooked the fact that there were no structures upon which to build capitalist institutions and policies. On account of these and other shortcomings, many programmes did not achieve their intended goals.

Objectives of the dissertation
In this dissertation the programmes of the international financial institutions are investigated, with the aim to give advice about how they might be improved. Many international programmes do not have the desired outcomes. The objective is to establish why outcomes are different from the intended outcomes, and how it is possible to improve upon the programmes of international organizations. This dissertation also tries to reconstruct some of the things that 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 objective of this dissertation is furthermore, to add to the body of knowledge of Mongolia, 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.

Chapter 2 – A new explanatory model for policy analysis and evaluation
In chapter 2, a model of policy evaluation has been developed to identify factors that cause policy outcomes to diverge from the intended results. In this model the explanatory factors may be 'real world' factors such as badly-defined performance indicators or cyclical economic problems, or they may be inherent to the conceptual and institutional framework to which policy makers adhere. The conceptual and institutional frameworks are new elements in policy analysis, are particularly

important to international policies and programmes, and constitute an improvement of conventional methods of policy analysis.

The conceptual framework
Policy makers have assumptions and theories on how a policy is supposed to bring about the intended outcome. To clarify those it is necessary to add an additional layer to the basic framework in which definitions, assumptions and theories are specified. Without this additional layer, it is impossible to trace in an evaluation why the actual outcome of a policy or programme is different from the intended outcome. These findings are necessary to improve policies and programmes.

The conceptual framework refers to the ideology, the norms, and values to which people adhere, to the theories and assumptions upon which they base their policies and programmes, the definitions they use, and their attitudes and behaviour. The conceptual framework is influenced by culture, geographical characteristics, and history. Both the individual history of a person and the history of the region or country where a person lives, or has lived, shape his or her conceptual framework. The conceptual framework influences all elements or steps of the policy-making cycle.

The institutional framework
Just as important as the conceptual framework in explaining deviating outcomes of policies and programmes is the institutional framework. The institutional framework refers to the political, social and economic setting in which a policy has to be implemented. It refers to the institutions that exist in a country and the legal setting of that country. It refers to all stakeholders of a policy or programme. It comprises all structures that exist in a country which are important to, and exert an influence on, a policy. Economists would refer to it as all the formal institutions, but the concept of the institutional framework is broader as it also comprises the stakeholders – whether individuals or organizations, and whether they have overt or tacit interests – of a policy or programme.

When designing a policy or programme, it is worthwhile to analyse the institutional framework thoroughly – especially in connection with the theories, assumptions, and definitions that underlie a specific policy or programme. If the assumptions with regard to any of the elements of the institutional or conceptual framework are wrong, one can expect a different policy outcome from that intended. Thus it is important to establish what requirements should be fulfilled with regard to the institutional and conceptual framework in order to be able to implement a policy successfully, and, if requirements are not fulfilled, what influence that will have on the outcomes of the policy when it is being implemented, and how a counterproductive influence can be prevented.

The new model applied to some international programmes in Mongolia
The extended framework of policy analysis and evaluation is used in Chapter 2 to evaluate the Mongolian privatization policy in agriculture, and to evaluate a Tempus TACIS project 'A curriculum change in medicine at the NUM'. What becomes evident in the examples is amongst others the fact that if the rationality policy designers assumed of a population is different from the rationality that that population displays, the outcome of a policy is completely different from what was intended.

Also when institutional and conceptual requirements are different from the actual institutional and conceptual characteristics of a country, then the outcome of a programme or policy may be very disappointing. The example of the agricultural policy also showed how much information is missing when the institutional and conceptual frameworks are not taken into account if one searches for explanations of the success or failure of a policy.

Using the new model of policy analysis and evaluation
All elements of the conceptual and institutional framework vary from one country to another. A policy or programme that was successful in one country may not be successful in another country on account of variations in the conceptual and institutional (and conceptual) framework. It is therefore important to establish, before implementing a policy or programme, what the requirements of the programme are to the conceptual and institutional framework, how the conceptual and institutional frameworks of the countries concerned look, what relevant differences exist between the requirements and the actual frameworks, and what relevant differences exists between the frameworks of the countries concerned, and how that will influence the outcome of that policy or programme.

The extended model of policy analysis and evaluation is a rational model, in which irrational or incremental elements are incorporated, thus giving those elements a place in evaluations. It can be used by scholars for analyzing and evaluating government policies and the policies of international organizations and by policy makers to design and improve their policies. If policy makers follow every step of the framework conscientiously, it will lead to a rational and systematic process of policy making, in which the pros and cons of the various possibilities are weighed against each other; and to a goal-oriented policy design.

The extended framework can also be used for cross-country comparisons to establish why a certain policy works in one country or situation and why it does or does not work in another country or situation. It provides evaluators with a method to evaluate a policy or programme properly, and to establish whether and why policies have, or have not, worked. In his way, it is possible to make the policy process a learning process, in which improving the efficiency and effectiveness of policies and the improvement of accountability are central. Both policies and the policy-making process can be improved.

Chapter 3 – Identifying potential problems in international aid programmes; the example of well rehabilitation programmes in Mongolia
When designing international aid programmes, policy makers have to foresee many potential problems in order to forestall them – many more than when national policies are formulated. In addition to dealing with problems such as defining objectives clearly and defining good performance indicators, policy makers have to take into account both their own institutional and conceptual framework and that of the country concerned. Using the new explanatory model for policy analysis and evaluation, categories of regularly encountered pitfalls of international aid programmes can be identified. In Chapter 3, the new model of policy analysis of chapter 2 is used to identify pitfalls in international programmes for well rehabilitation in Mongolia.

In chapter 3 it becomes obvious that the basic framework of policy analysis and evaluation can establish various shortcomings in the project of programme design, but that it cannot establish why the outcome of a programme is different from the intended outcome. To examine this question, the conceptual and institutional frameworks of the programme, of both the donor country/organization and the country concerned have to be analysed.

With regard to the conceptual framework, the mentality in Mongolia that 'action will only be undertaken when problems occur', in combination with the perception of the role of the state in rural areas that the state is responsible for the provision of certain goods and services, does not bode well for the long-term sustainability of the wells. At the moment, the prevailing mentality in rural areas is not in keeping with the mentality required for the programmes. So far, however, the training provided by the programmes has not been able to change that mentality. There are strong arguments for increasing the number of wells in rural areas of Mongolia, and, in this respect, the present well-rehabilitation programmes are very effective in increasing the number of functioning wells. The question is, however, whether the measures taken in the programmes are sufficient to guarantee the long-term sustainability of the wells.

Chapter 4 – Total Factor Productivity and the Mongolian Transition
Total Factor Productivity (TFP) is often used on the macroeconomic level as an indicator of changes in efficiency of a country. In many transition economies TFP decreased in the last decade of the plan economy and started to increase after several years of transition. Many authors conclude that this is a gain in efficiency due to the structural changes carried out in order to establish a market economy in those countries. In the case of Mongolia, not only non-viable enterprises closed down, but many possibly viable enterprises with potential closed down as well. This raises the question whether the changes in TFP were really attributable to increases in efficiency. To investigate this, the mathematical properties of TFP are analysed to see whether this would give new insights into the development of TFP in Mongolia.

This chapter was inspired by the analysis of the Mongolian economy by Cheng (2003) using the Cobb-Douglas production function. It looked into several mathematical properties of the Cobb-Douglas function and into the consequences of these properties for Total Factor Productivity. The outcomes were used to gain a better insight into the development of efficiency and TFP for the transition economy of Mongolia. The most interesting conclusion with regard to the properties of the Cobb-Douglas function and TFP is that in the commonly occurring cases where both capital- and labour-productivity increase or decrease, the movement of TFP is independent of the value of α.

Another interesting conclusion is that an unbalanced and less uniform distribution of capital and labour over the enterprises in an economy affects TFP negatively. Furthermore, the quality of the data may have a significant impact on the sign and value of TFP-change, as well as structural changes in an economy. Once the economic situation has stabilised and the magnitude of, for instance, the informal sector and barter trade do not change significantly anymore, the exclusion of those phenomena from the calculation of TFP does not really influence the relative change in the value of TFP anymore.

An accurate measurement of GDP is of crucial importance to the use of TFP as a measure of efficiency as it is the most influential single factor. In economies that are in the process of structural change, be it the growth or decline of an informal sector, of barter trade, or of any other structural change, TFP as a measure of efficiency should be used with caution. Furthermore, for economies with unreliable statistics in combination with the peculiarities of income accounting, the present use of TFP may lead to a distorted picture of efficiency on the macroeconomic level as well. An extensive sensitivity analysis in which especially the errors in the data are analysed is therefore important.

With regard to Mongolia, the decrease of TFP in Mongolia in the early 1990s and the subsequent increase is robust for variations in both the depreciation rate and the data. Simulations are performed to see what happens with TFP if not the least efficient, but a certain percentage of enterprises in a (closed) economy randomly close down. The results show that a random closure of enterprises fits the data of Mongolia much better than closing only the least efficient enterprises, which gives more insight into the possible reasons behind the increase of TFP during the mid 1990s.

The use of TFP for a transition economy in a period of structural economic change is not recommended, as basically in those situations TFP is an unreliable indicator. With regard to Mongolia, both the analysis of TFP and the use of simulations shed a serious doubt on the conclusion of Cheng that efficiency in Mongolia increased during the first decade of transition. With regard to the method of calculating TFP, this chapter provides evidence that on an ordinal scale in many commonly occurring cases there is no need to estimate α or use regression analysis for the calculation of TFP. This chapter finally stresses the importance of high quality data for the use of an indicator such as TFP. When data are of a lesser quality, there may be a serious flaw in the calculation, and thus the value, of TFP.

Chapter 5 – Expectations of transition and its outcome in Mongolia
Chapter 5 is an empirical chapter in which the results of a survey into the expectations of transition in Mongolia are described. At the beginning of the transition from a communist system to democracy and a market economy in 1990, Mongolians seemed to have high expectations of the new system. 15 years after the beginning of the transition was a good moment to evaluate how the transition was perceived by Mongolians. By means of a questionnaire, over 270 Mongolians were asked what their most important expectations of the transition were in 1990; whether these expectations were fulfilled; and what, according to them in 2005, were the outcomes, both for themselves and for society.

New methodology
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.

Expectations and the outcome of transition
At the beginning of the transition from a communist system to democracy and a market economy in 1990, Mongolians had high expectations of the new system.

Hardly anyone had negative expectations of the system change, neither for themselves nor for society. With regard to the outcomes of transition, the respondents seem to have gained from the transition in their personal lives. They evaluate the influence of the transition upon their life more positively than negatively. The highest-valued gains of the transition – and exceeding the already high expectations – are 'freedom' and 'foreign contacts'. Democracy is also valued by many respondents. The losses due to the transition are found in the social sphere, the biggest loss being the general financial situation, i.e. the poverty that has occurred after the transition and the growing gap between poor and rich. For the issue of 'state and politics', (the growth of) corruption is the biggest loss.

Appendix B4– Deriving a function for TFP with application to Mongolia
In Appendix B4 a corollary of Chapter 4 is presented: a function for TFP is derived with an application to Mongolia. In chapter 4 it was demonstrated that the quality of data is crucial to the calculation and use of TFP as indicator of efficiency. As reliable and qualitatively good data may difficult to obtain, in this appendix a new method is presented, that allows us to construct an analytic function that describes the development of TFP in time. A method for quantifying the relative growth of technology is developed, based on time series data for aggregate output, capital and labour. The focus of the application of the method is on situations where estimates of the input shares of capital and labour are unreliable or difficult to obtain.

The new method calculates the relative growth of technology and the input share of capital α. Based on a relation between relative output growth and the relative contributions from inputs and technology for Hicks neutral production functions, time series data of aggregate GDP, capital and labour for Mongolia suggest a sinusoidal function of technological growth for the period 1985-2000. Relative growth can be inferred at an ordinal scale for the entire period, for any $\alpha \in [0.4, 1]$. In order to quantify the relative growth of technology, a method is proposed that requires zero-growth time points as input for calculating a sinusoidal growth function.

The new method is illustrated for Mongolia's economy, which shows that α is close to 1. The method can be easily combined with a sensitivity analysis for the input data. In addition, the method gives insight into the different components that underlie the growth of technology, which, for Mongolia, consist of a periodic effect and a general trend. Summary descriptions like these could facilitate comparisons of growth between different economies.