Report Number : ICRR0020708

1. Project Data

Project ID	Project Name
P108768	MN-Mining Sector Inst Strength TA
Country	**Practice Area(Lead)**
Mongolia	Energy & Extractives

L/C/TF Number(s)	Closing Date (Original)	Total Project Cost (USD)
IDA-44890,IDA-H4110	31-Dec-2012	10,300,000.00
Bank Approval Date	**Closing Date (Actual)**	
26-Jun-2008	31-Dec-2015	

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	9,300,000.00	0.00
Revised Commitment	9,217,303.70	0.00
Actual	8,691,035.08	0.00

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2. Project Objectives and Components

a. Objectives

According to the Project Appraisal Document (p.16), the project development objective was:

“to assist the Government to develop further the policy, fiscal, legal, regulatory and institutional framework for the mining and extractive sector that meets the needs of government, industry, and civil society. This includes the operation of Erdenes MGL LLC according to good international practice associated with a commercial entity.”

The Financing Agreement (p.5) defines the project objective as:

“to establish key pieces of the policy, fiscal, legal, regulatory and institutional framework for the mining and extractive sector that meet the needs of the public sector, industry, and civil society, including the operation of Erdenes MGL LLC according to international standards associated with commercial entities.”

The project objective was revised through a Level 1 restructuring in January 2014. The Amended and Restated Financing Agreement (p.5) defines the revised project objective as:

“to establish key pieces of the policy, fiscal, legal, regulatory and institutional framework for the mining and extractive sector that meet the needs of the public sector, industry, and civil society.”

The Level 1 restructuring did not lead to a material change in the project objective. The deleted part is an output expected from the project, and as the Restructuring Paper (p.8) dated December 18, 2013 states “to a large extent support for commercializing Erdenes MGL (the second part of the PDO, which starts with “this includes”) is already captured within the wording of the first part of the PDO.” There was no substantial material revision in the project components or key associated outcome targets, either, other than the deletion of the PDO indicator for Erdenes (the state equity holding company) which was replaced by two new intermediate indicators.

Following IEG procedures, this ICR Review is based on the project development objective as stated in the original Financing Agreement. However, since the second part of the project objective, i.e. "including the operation of Erdenes MGL LLC according to international standards associated with commercial entities", defines a project activity, it is not included in the evaluation of efficacy in Section 4.

b. Were the project objectives/key associated outcome targets revised during implementation?

Yes

Did the Board approve the revised objectives/key associated outcome targets?

Yes

Date of Board Approval

10-Jan-2014

c. Will a split evaluation be undertaken?

No

d. Components

According to the PAD (p.18-20), the project had four components with numerous sub-components:

1: Strengthening the Capacity to Manage Mining Revenues, and Develop Economic and Sector Policies. (*Appraisal cost: US$4.1 million; Actual cost: US$4.82 million.*)

The Ministry of Finance (MoF), the Ministry of Industry and Trade (MoIT), the Mineral Resources and

Petroleum Authority of Mongolia (MRPAM) and Erdenes were to be provided with support to enhance capabilities of their staff to
(a) prepare various mineral sector policies related to sustainable mining development, revenue sharing with sub national levels of government, state equity participation, minerals taxation and exploration;
(b) carry out mineral sector financial planning and forecasting;
(c) prepare model contracts and investment agreements for future projects;
(d) establish a sector communications strategy to convey to civil society, investors and the political leadership the objectives, outcomes and policy initiatives resulting from the project; and
(e) undertake a review of the institutional framework and responsibilities and authorities of the various government agencies engaged in mining sector management.

Furthermore, the General Department of National Taxation (GDNT) was to be provided support to
(a) prepare new mining tax legislation;
(b) carry out a review off Double Taxation Treaties;
(c) receive training on mining taxation assessment techniques, including risk assessments; and
(d) carry out full mining and petroleum project tax audits.

2: Improving Regulatory Capacity to Manage Mining Sector Development. (*Appraisal cost: US$3.0 million; Actual cost: US$1.34 million.*)

There were five activities to be implemented under this component:

(a) support to MoIT and MRPAM to improve the legal and regulatory framework governing the sector especially regarding licensing, environmental protection, social mitigation and mineral sector institutional roles and responsibilities;
(b) ongoing support to the cadaster office to complete the establishment and operation of a fully computerized mineral licensing system (i.e., cadaster) and completion of the cadaster regulations;
(c) support to MRPAM and Ministry of Nature and Environment (MoNE) to further develop the regulatory frameworks for environmental and social management of large- and small-scale mining, including establishment of mine closure regulations and coordination and clarification of mineral sector institutional roles and responsibilities;
(d)support staff development and capacity building for effective implementation to achieve improved mineral industry regulatory compliance based on the newly developed regulatory frameworks;
(e) supplementing the assistance given by the Swiss Development Cooperation Small and Artisanal Mining Project to develop environmental training programs for operations and rehabilitation of ASM sites, support the formalization of the sector and outreach activities, including miner education and training, establishment of a database of artisanal and small-scale locations and miners; and
(f) support to improve the management of mineral reserve and resource data, particularly with respect to strategic mineral deposits, develop an information management policy and support the development of systems for an increase in the scale and scope of data digitizing of the very large stores of geological information.

3: Developing the Capacity for Management of State Equity. (*Appraisal cost: US$1.4 million; Actual cost: US$1.41 million.*)

This component had three activities:

(a) to assist the Government to put in place the proper legal framework, governance and oversight structure, and financial and fiduciary arrangements for Erdenes consistent with the OECD Principles of Corporate Governance.
(b) to support the training and development of the company's Directors (including any independent Directors) and officers in international best practice with respect to corporate financial management and reporting arrangements and assist the company to prepare for listing on the Mongolian Stock Exchange pursuant to its obligations under Clause 5.6 of the Minerals Law 2006.
(c) to assist Erdenes staff, management and Board with the provision of advice on investment strategies and project financing as well as technical training of staff on mineral project evaluation, feasibility studies, and financial modeling.

4: Project Management. (*Appraisal cost: US$0.8 million; Actual cost: US$0.97 million.*)

The staff of the Project Implementation Unit (PIU) which would be established in the MoF was to be supported to monitor, supervise, and provide technical and administrative assistance to the proposed Project.

<u>Revised Components</u>

Although there were no changes to the main components, two sub-components of the second component were dropped at project restructuring in January 2014. The ICR (p.8.) states that the project documents did not provide any explanation why 2. (c) was dropped at the restructuring (please see section 8 below for further discussion). On the other hand, 2. (e) was dropped to avoid duplication with the assistance given by the Swiss Development Cooperation's Small and Artisanal Mining Project.

e. Comments on Project Cost, Financing, Borrower Contribution, and Dates

Project Cost: The total project cost was originally estimated at US$9.30 million including a US$0.40 million for physical contingencies and a US$0.45 million for price contingencies. The actual project cost is reported as US$8.55 million in Annex 1 of the ICR.

Borrower contribution: There was no borrower contribution envisaged for the financing of the project.

Dates: The project was restructured three times in July 2012, January 2014 and March 2015. The loan closing date was extended in each restructuring. First extension was for one year from December 31, 2012 to December 31,2013 due to the delay in the effectiveness of the project and slow project start. In the second restructuring, which was Level 1, the project closing date was extended to March 31, 2015. The restructuring paper dated December 18, 2013 (p.13) stated that the extension would "ensure completion of project activities and the higher-level achievement of its development objectives." Lastly, the project closing date was extended for the third time by nine months to December 31,2015, to allow for the completion of the Cumulative Impact Assessment agreed as part of the Environmental Action Plan (ICR, p.9).

The first and the third restructurings were Level 2 and consisted of project closing date extensions. The second restructuring was Level 1 and in addition to the project date extension, the project development objective and some indicators were revised (please see the Efficacy section 4), two sub-components of the second component were dropped (please see Revised Components above) and the safeguards arrangements were updated (please see the Safeguards section 11a).

3. Relevance of Objectives & Design

a. Relevance of Objectives

The project objective is consistent with the country's current development priorities. As an important mining country, especially in copper, gold, coal and fluorspar, Mongolia identifies the mining sector as the driving force behind its economic growth and development. The project objective supports the goals of the Comprehensive National Development Strategy of Mongolia (2007-2021) related to the mining sector. (NDS, p27-29, https://www.adb.org/sites/default/files/linked-documents/cps-mon-2012-2016-oth-01.pdf)

The project objective is also consistent with the Bank's country and sectoral assistance strategies. The first pillar of the current Country Partnership Strategy (CPS – FY2013-17) targets the enhancement of Mongolia's capacity in managing the mining economy in a sustainable and transparent way. The project activities support the two outcomes expected under the first pillar (CPS, p.22-23): (i) support the country in developing a regulatory environment, institutional capacity, and infrastructure for world-class mining; and (ii) support the Government in designing and implementing policies and systems for a more robust, equitable and transparent management of public revenues and expenditures.

Rating	**Revised Rating**
High	Not Rated/Not Applicable

b. Relevance of Design

The project objective was ambitious and very broadly defined, which targeted establishing key pieces of the policy, legal, fiscal, legal, regulatory and institutional frameworks for the mining and extractive sector in order to meet the needs of the public sector, industry and civil society. However, the key risks and development needs to be addressed by the project were defined in close consultation with officials in various ministries and government agencies at the project design phase (PAD, p.13-14). Therefore, although complex in its design, a broad causal chain can be established among various activities, which required the participation of multiple beneficiaries, outputs and outcomes of the project with some reservations explained below.

The project design had some shortcomings. IEG notes the practicality of the ICR's dividing group activities into three major categories each corresponding to a principal beneficiary, i.e. first component to the Ministry of Finance, second component to the Ministry of Mining and related regulatory agencies and third component to Erdenes, as "a useful way of obtaining and retaining the commitment of beneficiary institutions" (p.13); nonetheless, the project design was very complex and wide in scope. There was a total of 19 sub-components covering 32 project activities. Hence, the average activity size was small due to the funding amount. In addition to its complex structure, the project implementation period was not realistically defined. The original project implementation period of four years was too short, which manifested itself in three project closing date extensions for a total of three years and six months. Lastly, as the ICR (p.13) notes, the project activities mostly consisted of the delivery of knowledge and expertise through expert reports and benchmarking, which were in strong demand from policy-makers, but the project design did not include a clear causal link how these inputs would lead to policy decisions in order to achieve the project objective.

Rating	**Revised Rating**
Modest	Not Rated/Not Applicable

4. Achievement of Objectives (Efficacy)

Objective 1

Objective

To establish key pieces of the policy, fiscal, legal, regulatory and institutional framework for the mining and extractive sector that meet the needs of the public sector, industry, and civil society.

Rationale

Due to the nature of the project activities, it is not possible to make a clear distinction among key pieces of the policy, fiscal, legal, regulatory and institutional framework for the mining and extractive sector and the needs of the public sector, industry and civil society overlap. Therefore, the project objective will be evaluated under one heading. Furthermore, the sentence related to Erdenes, i.e. "including the operation of Erdenes MGL LLC according to international standards associated with commercial entities", will not be treated as a part of the project objective, since it is a *means* to achieve the objective mentioned-above. Hence, a split rating is not necessary, although the project objective was revised through a Level 1 restructuring.

As discussed under Relevance of Project Design, the project activities mostly consisted of delivery of knowledge and expertise (please see ICR, Annex 2 for a detailed list of consultancies financed by the project), but it was not clear how these inputs would lead to policy decisions in order to achieve the project objective. At project closing, the results framework had seven project development objective (PDO) indicators and 16 intermediate indicators.

Achievements tracked by PDO indicators:

- Mining tax audits were completed in 2014 and assessments were raised.
- The Fiscal Stability Fund is now operational in accordance with regulations under the Fiscal Stability Law of 2010 and Special Funds Law of 2006. (However, the ICR (p.vi) states that this achievement is partly attributable to other Bank activities on public financial management.)
- The district (*aimag*) and local level government (*soum*) budgets are published regularly under the Integrated Budget Law of 2011. However, only a partial attribution can be established between the project activities and achievement of this PDO indicator since the project financed activities were basically trainings and study tours.
- There was no cadaster system in place. At project closing a fully computerized cadaster can be accessed online and used for filing license applications.
- The authorities and responsibilities of various government mining sector management institutions were not clearly defined. The project was partially successful in establishing this regulatory and institutional framework. Some of the recommendations listed in the project financed Functional Review, such as the establishment of a national geological agency was endorsed by the Ministry of Mining, but no action plan was adopted to implement other recommendations.
- One of the goals of the project was to increase the availability and publication of digital geological information for investors and society, but this goal could not be achieved due to restrictions placed on the digitization and disclosure of geological data on national security grounds.
- The project was successful in facilitating public consultations on several mining sector related policy and legislative reforms. The achievements tracked by 16 intermediate indicators are summarized below:
- A fiscal stability fund was established, but the achievement is partially attributable to the project.
- A draft model Petroleum Production Sharing Agreement was prepared, but the Government removed jurisdiction over some aspect of investment agreements away from the Ministry of Mining.
- Several Ministry of Mining policies were reviewed, but the project activities did not result in any specific policy statements.
- Preparation and dissemination of independent professional mining sector economic and policy reports could not be achieved. No report could be produced.
- Modern mining cadaster regulations are prepared, promulgated, implemented and monitored.
- Drafts of income tax law on mining and supporting regulations were prepared, but could not be submitted to the Mongolian Parliament.
- The review of Double Taxation Treaties was completed and as a result, two treaties were cancelled and some others were renegotiated.
- All tax audit staff received training and two mining company audits were conducted by the staff.
- Modern company reporting regulations were prepared, but the project activities fell short of achieving the enactment and enforcement of these regulations.
- Modern occupational health and safety regulations were prepared, but the project activities fell short of achieving the promulgation of these regulations.
- A strategic environmental and social assessment (SESA) was completed in December, 2014 with an action plan discussed by the Government.
- SESA consultation process was completed and local engagement approaches were demonstrated, however, the achievement was partial, because these local engagement approaches were not explicitly adopted as models of engagement.
- Modern mine closure and post closure regulations were prepared, but they could not be promulgated.

Achievement was partial.

- In order to establish a legal framework for Erdenes a charter was to be adopted which would be in line with good corporate practices. Although such a charter was adopted, it did not satisfy the requirements of good corporate practice.
- Eight Erdenes financial reports were produced between 2013 and 2014 on a quarterly basis as targeted.
- Sixteen training events were to be provided to the staff of Erdenes to build institutional capabilities. Although the project funded some trainings, neither the number of events or attendance was recorded.

Because the project targeted long term policy reforms in various fields related to the mining sector, it was highly exposed to political cycles in Mongolia (ICR, p.17). Changes in the government's approaches to the mining sector policies adversely affected the achievement of project objectives. For example, the government's decision to define a comprehensive mining policy resulted in the preparation of the State Policy on Mining from 2010 to 2014. Hence, the target set for the improvement of the mineral rights management system was not achieved.

Overall, the implementation of project activities under various sub-components was uneven and the project outputs did not lead to the desired outcomes to achieve the project development objective. By design, the project was structured to deliver outputs in the form of knowledge and expertise sharing, and the project did not result in tangible policy reforms or establishment of sector related frameworks, although there was some partial success, especially in establishing fiscal and legal frameworks for the mining and extractive sector. Furthermore, some outputs are not fully attributable to the project activities. Due to these shortcomings, IEG rates the achievement of the project development objective as modest.

Rating
Modest

5. Efficiency

Unlike investment projects, it is not easy to make a quantitative economic and financial analysis of technical assistance projects. Therefore, in analyzing the efficiency of this project, some macroeconomic indicators are used. The PAD (p.28) defines two indicators for this purpose: (a) annual investment for exploration by mining companies; and (b) increased fiscal revenues from the expected increase in sector exploration and development activities, increased artisanal and small-scale mining production, and increased tax assessments from tax audits. At appraisal, US$5-10 million per year fiscal revenue from tax audits alone was deemed feasible, which would yield a financial rate of return of 65-125 percent.

At project closing, four criteria were identified for economic and financial analysis (ICR, Annex 3).

1. Calculation of financial return on project investment based on the increased tax assessment resulting from tax audits supported by the project. As a result of the support given by the project activities to the General Department of Taxation in planning and undertaking tax audits of major mining companies registered in Mongolia, a major international mining company paid US$30 million after resolution of a tax dispute.
2. Levels of investment in the mining sector in the period of the project, including that made in mineral exploration specifically. During project implementation, the government declared a moratorium on issuing new exploration licenses. In the same period, investments in the mining sector fluctuated sharply. At project closing, mineral prices had already declined for the last four years and the investment commitments by the mining companies were low. Some of the project activities supported the government's efforts to improve the regulatory framework for mining sector development, such as the completion of the national mining policy, amendment of the mining law and the lifting of the moratorium on licensing in 2014. However, the ICR does not provide any evidence whether there was a causal link between the project activities and the levels of investment in the mining sector during project implementation.
3. Several macro-economic indicators of the contribution of the mining sector to the economy in the period of the project. Even before the start of the project, the mining sector had a significant share in the economic activity in Mongolia. It accounted for 19.5 percent of the gross domestic product (GDP) in 2009. Mining sector also dominated the exports with a share above 80 percent each year between 2010 and 2015 (ICR, Table A3.3, p.46). However, as was the case with the previous criterion, the ICR does not provide any evidence whether there was a causal link between the project activities and the contribution of the mining sector to the economy.
4. Selected indicators of wider and economic impacts on the populations of mining regions of Mongolia. The Project Team informed that there was insufficient data to evaluate these selected indicators.

Operational and Administrative Efficiency

The project implementation period was originally four years. After three restructurings, the project implementation period increased to seven years. There were three Task Team Leaders (TTL) involved in the project from preparation until project closing. One of the TTLs was in charge of the project in two separate periods: the first period was from 2010 to 2012 and the second was from 2015 until project closing.

IEG notes that tax audits resulted in a revenue of US$30 million, which is very high compared to the total project cost. In a sense, this increased the efficiency of the project. However, tax audits were one of 32 project activities. The ICR does not provide information about the other activities under economic and financial analysis. Furthermore, the project implementation period of seven years was significantly longer than the appraisal projection of four years. Overall, IEG rates the efficiency of the project modest.

Efficiency Rating

Modest

a. If available, enter the Economic Rate of Return (ERR) and/or Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

	Rate Available?	Point value (%)	*Coverage/Scope (%)
Appraisal		0	0 ☐Not Applicable
ICR Estimate		0	0 ☐Not Applicable

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome

Although the project objective’s relevance was high, the project design was very complex and had some shortcomings, especially in establishing a causal link between technical assistance activities in the form of sharing knowledge and expertise, and how these would lead to policies and regulatory arrangements in the mining sector. Therefore, project design is rated Modest. Efficacy is also rated Modest, because the project outputs did not lead to the desired outcomes to achieve the project development objective. Some outputs were not fully attributable to the project activities. Efficiency is also rated Modest, because other than the tax audits, there is not sufficient information about how efficiently project funds were used to implement other project activities. Furthermore, the longer than planned project implementation period negatively affected the efficiency of the project. Hence, IEG rates the overall outcome as Moderately Unsatisfactory.

a. Outcome Rating

Moderately Unsatisfactory

7. Rationale for Risk to Development Outcome Rating

Frequent changes in the policy landscape is a major risk to development outcome and the continuation of the mining sector reforms. Although, there is currently a favorable political landscape in Mongolia for further reforms in the mining sector which would benefit from the capacity built by this project, a change in government, as was experienced during project implementation, might very well result in a reversal of policy direction and stall the reform process.

Government might be reluctant to continue with the reform process due to the effect of fluctuating global commodity markets on the economy. The exposure of the Mongolian economy to fluctuations in the commodity prices is very high. High commodity prices might cause a mining boom and result in a more resource nationalist policy implementation. In times of dire economic conditions caused by downward movement of commodity prices, the government might change its position towards establishing more regulatory clarity and a balanced stance towards foreign investment. This high-level exposure to global commodity prices poses a substantial risk to development outcome.

a. Risk to Development Outcome Rating

Substantial

8. Assessment of Bank Performance

a. Quality-at-Entry

The project provided technical assistance in the mining sector, which is one of the main economic sectors in Mongolia and constitutes more than 80 percent of exports. Therefore, the project was strategically relevant to the conditions in Mongolia. The project was designed in close consultation with officials in various ministries and government agencies, and key areas for support were clearly identified (PAD, p.13). Project design benefited from the experience gained from similar mining technical assistance projects implemented in other countries. A detailed risks assessment was conducted at appraisal and mitigation methods were identified, although some proved to be not sufficient (ICR, Table 2; Risk Ratings, Mitigation and Assessment, p.15). Implementation arrangements were adequate and defined in detail in Annex 6 of the PAD (p.62-65).

However, there were moderate shortcomings in ensuring quality at entry. As explained in the Relevance of Project Design section, the project had an overly complex structure. It was not clear how project outputs would lead to tangible policy actions and the establishment of regulatory frameworks. The monitoring and evaluation (M&E) arrangements were not sufficient to monitor the progress towards the achievement of the project objective. Although prepared in detail, most of the indicators and the target values were not clearly defined. The ICR (p.14) points out that, at appraisal, a currency fluctuation risk was not measured, which reduced funds available to finance some activities during project implementation.

Overall, because of moderate shortcomings, IEG rates Quality-at-Entry as Moderately Satisfactory.

Quality-at-Entry Rating

Moderately Satisfactory

b. Quality of supervision

Faced with various problems during implementation which were caused by changes in political landscape, decreasing government commitment, fluctuations in the global commodity markets, and the poor performance of the Project Steering Committee, the project required intensive supervision and close monitoring of its performance. At the start of the project implementation, the Task Team Leader (TTL) was stationed at the capital, Ulaanbaatar. In 2011, the TTL’s location was moved to the Bank headquarters in Washington, DC, after which a total of seven periodic supervision missions were held. A local consultant was hired to liaise with the counterparts in Mongolia. Mid-term review was held one year later than originally planned.

A safeguards review conducted during the preparations for the second restructuring resulted in triggering Involuntary Resettlement (OP/BP 4.12) safeguard policy. Two winter shelters had to be relocated because of a pre-feasibility study financed by the project. As a result, an Environmental Impact Assessment was prepared and agreed with the government, which included actions to be completed regarding involuntary resettlement.

The Bank provided training and guidance to the Project Implementing Unit in procurement and financial management when needed. However, after 2010, the completion of some procurement cycles was delayed because of the frequent changes of the Bank's procurement staff along with the specialist's location from Ulaanbaatar to Beijing and then to Washington, DC.

Overall, the quality of supervision is rated Moderately Satisfactory.

Quality of Supervision Rating

Moderately Satisfactory

Overall Bank Performance Rating

Moderately Satisfactory

9. Assessment of Borrower Performance

a. Government Performance

At appraisal, government's commitment to mining sector reform and hence, to the project was high. Even before the project start, the Government of Mongolia (GoM) had taken steps for the implementation of Extractive Industries Transparency Initiative (EITI) and prepared the first EITI Reconciliation Paper (for more information on EITI: www.eiti.org). Private-sector led mining development was included in the National Development Strategy. Anti-corruption legislation was passed in 2008. However, mostly due to the four-year election cycle which resulted in a government change in 2012 and the sharp fluctuations in the mining sector commodity prices, government commitment to achieving the development objective was not always strong during project implementation. Especially after the change of government in 2012, the GoM adopted a more nationalist resource policy, a restrictive foreign direct investment regime and was reluctant to limit state intervention through state-owned enterprises (ICR, p.17).

Changes in the policy landscape resulted in the deterioration of the enabling environment to implement project activities. In 2010, the GoM launched a review of the Mining Law and a moratorium on issuing new exploration licenses was imposed for the duration of the review which ended in 2014 after the introduction of the amendments to the Mining Law of 2006. As a result, targets related to key sector policies, improvement of the mineral rights management system and managing geological data could not be achieved or were partially achieved. As the ICR (p.17) reports, "the technical regulations needed for effective monitoring of compliance and enforcement by Mineral Resources Authority of Mongolia and other agencies, which the project supported, were held up until after the Mining Law amendments were made and by project closing had not been promulgated."

Furthermore, after the 2012 elections the incoming government increased its control over Erdenes, imposed quasi fiscal duties on the company and decided not to open Erdenes to international capital markets to raise capital for investment in the mining sector. This resulted in a Level 1 restructuring and the PDO indicator about governance reform and the corresponding legal covenant had to be dropped. The project activities related to Erdenes could partially only achieve the targets set in the results framework.

Lastly, slow processing of appointments by the GoM and reviewing policy positions after the elections hindered the project implementation. Although the project was approved by the Board in June 2008, and the expected effectiveness was in November 2008, due to the elections in 2008, the parliamentary approval could only be received six months later and the project could only become effective in May 2009. Elections also impacted the functioning of the Project Steering Committee (PSC). Because of a change in its structure and new appointments after each election, the PSC could sometimes not convene or take decisions. This caused work plan approvals, procurement and disbursement to slow down, and institutional knowledge of the project and its goals were reduced (ICR, p.18).

Government Performance Rating

Moderately Unsatisfactory

b. Implementing Agency Performance

A Project Implementation Unit (PIU) established in the Ministry of Finance was responsible for project coordination and management, including fiduciary requirements. The PIU had prior Bank project experience (Governance Assistance Project – P09426). There were four project beneficiary institutions: Ministry of Finance (MoF), General Department of National Taxation (later General Department of Taxation - GDT), Mineral Resources and Petroleum Authority of Mongolia (later Mineral Resource Authority of Mongolia - MRAM) and Ministry of Industry and Trade (later Ministry of Mining - MoM). Each beneficiary was responsible for the achievement of related project outputs. PIU was to provide support to the project beneficiary entities in project implementation and had necessary capabilities as demonstrated under the Government Assistance Project. A newly created state economic enterprise of Erdenes was also a beneficiary of the project, but did not have any implementation capacity. An inter-ministerial Project Steering Committee (PSC) was formed with the purpose of providing policy guidance and supervision during project implementation. The PIU was to report to the PSC (PAD, p.23).

During project implementation, the PSC failed to fulfill its policy guidance and supervision role. Rather than acting as a platform, where policy directions to be supported by the project would be discussed, its function was limited to processing the funding and training requests of project beneficiary entities.

At the start of the project implementation, the PIU had difficulties in procurement and coordination among project beneficiaries, which was identified as a risk at appraisal. With the training and guidance provided by the Bank, the PIU developed sufficient project management capability including financial management. However, there were shortcomings in the PIU’s M&E performance. Until 2011, there was no dedicated M&E officer. Until the mid-term review, there was limited M&E implementation. The PIU was responsible for disbursement of project funds, and submitted quarterly financial statements to the Bank.

The ICR does not provide information about the performance of each project beneficiary entity. According to the information culled from various parts of the ICR, the General Department of Taxation (GDT’s) commitment to achieving development objective was strong. Through project activities undertaken by the GDT, some progress was achieved to strengthen tax administration in the mining sector. A Mining Tax

Department was established within the GDT. The ICR (p.36) states that “a high degree of interest and commitment was shown from senior officials of the beneficiary agencies, such as ... the Head of GDT.” GDT’s interest in capacity building, especially in skills development and exposure to examples of good global practices was strong (ICR, p.18). The Project Team commented that GDT had benefitted from clear goals and fairly consistent leadership, and made a significant effort to engage with supervision missions.

With respect to Mineral Resource Authority of Mongolia (MRAM’s) performance, although significant progress was made in improving the cadastral system in Mongolia, mineral licensing remained under moratorium due to the review of the Mining Law by the government between 2010 and 2014. Furthermore, MRAM could not complete the digitization of geological data due to restrictions imposed by the National Security Council (ICR, p.26).

At the time of Level 1 restructuring in January 2014, the direct reference to Erdenes was deleted from the project development objective text, yet, Erdenes continued to be one of the beneficiaries of the project activities. The commitment of Erdenes to the achievement of project objective was high at the early stages of the project. However, after the change of government in 2012, mostly due to the change in government policy to increase closer political control over the state equity company, the goals listed under the third component related to the institutional capacity of Erdenes could not be achieved. According to the information received from the Project Team, the engagement with Erdenes was largely limited to compliance with safeguard requirements during the last two years of the project.

The Project Team also informed that the key role of the Ministry of Mining (MoM) as the core beneficiary of the project was not seen that way by the officials since the Project Steering Committee was chaired by the State Secretary and the Project Implementing Unit was under the MoF. Although the MoM made frequent requests for expert input to working groups to tackle various regulatory issues, there was limited progress made in evidence-based policy making.

IEG notes that the project had a complex implementation design and the performance of the agencies responsible for project implementation, such as the PIU and the beneficiary entities, was heavily influenced by the political developments in the country and the changing political priorities. There were significant implementation problems until the mid-term review, but the PIU managed to improve its project implementation capabilities during the rest of the project implementation period. The beneficiary entities had different levels of commitment to the achievement of the project objective. Policy-makers were more interested in receiving knowledge and expertise, but it was not clear how these inputs would lead to policy decisions (ICR, p.13). Overall, the performance of project implementation agencies had significant shortcomings. Hence, IEG rates the project implementing agencies’ overall performance as Moderately Unsatisfactory.

Implementing Agency Performance Rating

Moderately Unsatisfactory

Overall Borrower Performance Rating

Moderately Unsatisfactory

10. M&E Design, Implementation, & Utilization

a. M&E Design

Although the project objective was broad and ambitious, the indicators, which were mostly non-numeric focusing on policy preparation and promulgation, were broadly designed to monitor the progress in achieving the project objective. However, the baseline values were missing and definitions of some of the indicators and related target values were vaguely defined. The project was to support capacity building in each project beneficiary entity in order to establish baselines and enhance the quality of future monitoring and evaluation. Project beneficiary entities were the primary source of data for monitoring project progress. The project implementation unit (PIU) was responsible for the preparation of quarterly and annual monitoring reports (PAD, p.23).

b. M&E Implementation

Until the Mid-Term Review in 2011, there was limited M&E implementation. There were no personnel at the PIU in charge of M&E implementation. Project support in capacity building to establish baselines and enhance the quality of future monitoring and evaluation did not materialize until after the Mid-Term Review. The first project monitoring and evaluation report was prepared in October 2011 and data collection for monitoring became more regular thereafter. In addition, the PIU prepared a yearly M&E report.

Some significant changes were made to the results framework during Level 1 restructuring in January 2014. "Several of the original PDO and Intermediate Indicators were redefined, target values revised and, where missing in the original documents, baseline values were added" (ICR, p.3). The changes summarized in Table 1 of the ICR (p.3-5) aimed at simplifying the design and monitoring the outputs which could more realistically be delivered through the implementation of project activities.

c. M&E Utilization

The M&E findings led to the revision of the PDO through the Level 1 restructuring in January 2014. However, since the deleted part of the PDO, i.e. "including the operation of Erdenes MGL LLC according to international standards associated with commercial entities", was a project output, this did not lead to a reframing of strategy to achieve the project objective.

The yearly M&E reports prepared by the PIU since 2014 were published on the project website. (The project website, www.msistap.gov.mn, is no longer online.) The ICR (p.20) states that despite the improvement in the M&E implementation, the M&E results were used only to inform project planning and Project Steering Committee deliberations in a limited way. As was confirmed by the Project Team, there was little evidence, including in records of meetings of the PSC (based on translations), that M&E data was routinely used to enrich discussions and decision making. Furthermore, M&E did not have any impact on subsequent interventions.

M&E Quality Rating

Modest

11. Other Issues

a. Safeguards

The project was classified as Category B under OP/BP 4.01 (Environmental Assessment), and no safeguards policies were triggered at appraisal. However, OP/BP 4.12 (Involuntary Resettlement) was triggered after a safeguards review conducted as part of the preparations for the second restructuring.

Environmental Assessment OP/BP 4.01: Since no location-specific activity was planned under the project and it was a policy-oriented and capacity building technical assistance project, an environmental impact assessment was not required. However, during the preparations of the second restructuring, it was found that a pre-feasibility study was financed by the project for the East Tsankhi coal mine, where two winter shelters were relocated in 2010 and more resettlements were expected as the operations of the coal mine operator, Erdenes Tavan Tolgoi (ETT), expanded. Although Category B classification of the project did not change after the discovery that a location specific activity was financed by the project, an Environmental Action Plan (EAP) was designed and agreed with the government. The project financed "consultancy services for the review of the environmental and social management system of ETT and develop a set of recommendations to ensure compliance of the system with the laws and regulations of Mongolia as well as comply with World Bank's procedures" (ICR, Annex p, p.56).

Involuntary Resettlement OP/BP 4.12: As explained above, this safeguard policy was triggered as a result of the relocation of two winter shelters by an activity financed by the project. A resettlement policy framework and a resettlement action plan were to be prepared under the Erdenes component of the project and would be subject to review and approval by the Bank. These documents were prepared and disclosed, and the modified safeguards covenant in the Financial Agreement was considered "complied with" (ICR, p.10). The Project Team informed that no other safeguards issues during implementation were documented.

b. Fiduciary Compliance

Financial Management

Detailed project financial management arrangements were given in "Annex 7: Financial Management and Disbursement Arrangements". (PAD, p.66-77.) The Project Implementing Unit (PIU) was in charge of the financial management of the project. Internal control arrangements were in place. The ICR (p.21) states that accurate and timely information on the use of Bank loan proceeds was provided by the project financial management system. Financial statements were produced quarterly and submitted to the Bank. Financial statements were regularly audited and they were all unqualified.

Procurement
The PIU was in charge of procurement. There were some challenges at the start of the project in setting up and implementing procurement, including coordination with beneficiaries, design of terms of reference and execution of procurement methods (ICR, p.19). Procurement performance of the PIU improved once the unit was fully established and the Bank provided support through training and guidance. In order to reflect the changes in the project priorities, the Procurement Plan was updated on a regular basis in accordance with Bank procedures.

Procurement cycle was occasionally slowed down due to the administrative difficulties in conducting multiple relatively small procurements which are common in a technical assistance project like this one. After 2010, completion of some procurement cycles was further delayed due to the frequent changes of the Bank's procurement specialist and the specialist's location.

Overall, Project procurement activities were found compliant to the procedures stipulated in the legal agreement and to the Bank's procurement guidelines (ICR, p.22).

c. Unintended impacts (Positive or Negative)
None.

d. Other
None.

12. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Moderately Unsatisfactory	Moderately Unsatisfactory	---
Risk to Development Outcome	Substantial	Substantial	---
Bank Performance	Moderately Satisfactory	Moderately Satisfactory	The ICR rating should have been Moderately Unsatisfactory. As per the Harmonized Criteria guidelines, above the line ratings are rounded down when the Outcome rating is in

			the Unsatisfactory range. IEG raises the Bank performance rating to Moderately Satisfactory, due to the increase in the Quality at Entry rating to Moderately Satisfactory.
Borrower Performance	Moderately Satisfactory	Moderately Unsatisfactory	Government performance had significant shortcomings caused by inconsistencies in policy and direction. This also had a negative impact on the performance of the Implementing Agencies. Both are rated Moderately Unsatisfactory. Hence, Borrower Performance rating is Moderately Unsatisfactory.
Quality of ICR		Substantial	---

Note
When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

13. Lessons

Two lessons are derived from the ICR.

Technical assistance projects with the objective of reforming one of the major economic sectors of a country can be adversely affected by the changes in the political landscape. Especially after the government change in Mongolia in 2012, some of the project activities could not be implemented due to the government's decision to review the Mining Law which resulted in a moratorium on mineral licensing (ICR, p.17). Furthermore, the government's decision to increase its control over the state equity holding company of Erdenes forced a Level 1 restructuring of the project development objective (ICR, p.18).

Availability of funds from global capital markets to finance government investments and expenditures can reduce a country's reliance on donor financing, which in return might reduce the government's appetite for sectoral reforms exclusively through technical assistance projects (ICR, p.17). This can also result in a restrictive foreign investment regime which would further diminish the need for reform (ICR, p.17). Therefore, although a country's easy access to funds is not a bad thing, per se, yet, in order to keep the country's interest and commitment to sectoral reforms through technical assistance, such projects may be supported by other financing instruments, such as Program for Results (ICR, p.38).

14. Assessment Recommended?

No

15. Comments on Quality of ICR

The ICR's narrative of this very complex project is clear and it is candid in its critical analysis of the project. The ICR is consistent with the OPCS guidelines, except the calculation of the Bank Performance rating which is explained below. It is also internally consistent. Arguments were supported by evidence. Information provided in table format was very useful to understand the revisions made in the indicators (Table 1, p.4), risks and assessment of mitigation methods (Table 2, p15) and achievement of project outcomes (Table 3, p.28).

However, the ICR could have benefited from a detailed discussion of M&E utilization and the performance of beneficiary entities during project implementation. Lessons learned were mostly in the form of recommendations. In the ICR, overall Bank Performance was rated as Moderately Satisfactory. However, as per guidelines, when the rating of one dimension is in the satisfactory range (Quality of Supervision – Satisfactory) while the rating for the other dimension is in the unsatisfactory range (Quality at Entry – Moderately Unsatisfactory), the rating for overall Bank Performance depends on the Outcome rating (Moderately Unsatisfactory). Therefore, the overall Bank Performance rating reported by the ICR should have been Moderately Unsatisfactory.

a. Quality of ICR Rating

Substantial