Report Number: ICRR0022181

1. Project Data

Project ID
P118109

Project Name
MN-Mining Infrastructure Investment Supp

Country
Mongolia

Practice Area(Lead)
Energy & Extractives

L/C/TF Number(s)
IDA-48880,TF-16382

Closing Date (Original)
30-Sep-2016

Total Project Cost (USD)
20,641,919.36

Bank Approval Date
10-May-2011

Closing Date (Actual)
31-Dec-2019

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	25,000,000.00	4,050,000.00
Revised Commitment	22,734,389.30	4,011,938.10
Actual	20,641,919.36	4,011,938.10

Prepared by	Reviewed by	ICR Review Coordinator	Group
Hiroyuki Yokoi	John R. Eriksson	Ramachandra Jammi	IEGSD (Unit 4)

Project ID
P145439

Project Name
MN-Mining Infrastructure Investment Supp (P145439)

L/C/TF Number(s)

Closing Date (Original)

Total Project Cost (USD)
0

Bank Approval Date
24-Mar-2014

Closing Date (Actual)

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	0.00	0.00
Revised Commitment	0.00	0.00
Actual	0.00	0.00

2. Project Objectives and Components

a. Objectives

The objectives of the Project are to facilitate investments in infrastructure to support mining and downstream processing activities, regardless of funding source, and to build local capacity to prepare and transact infrastructure projects. The overall objective is parsed for this review into two sub-objectives (consistent with the ICR, paras 15-17):: (1) to facilitate investments in infrastructure to support mining and downstream processing activities, regardless of funding source, and (2) to build local capacity to prepare and transact infrastructure projects. Subsequently, these two sub-objectives will be labeled as “Objective 1” and “Objective 2,” respectively.

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

18-Mar-2014

c. Will a split evaluation be undertaken?

No

d. Components

Component 1: Support for Infrastructure Investments (Appraisal cost: US$19.69 million, Actual cost: US$18.19 million). This component provided financing for the preparation of regional infrastructure investment plans, feasibility studies (FS) of proposed sub-projects, and environmental and social impact assessments (ESIAs). In the 2014 restructuring, the following six sub-projects were identified, while in the 2019 restructuring, three sub-projects were withdrawn due to incomplete project preparation (ICR para. 30).

i. Flow regulation of the Orkhon River and construction of a water reservoir complex scheme (dropped)
ii. Shuren hydropower plant on the Selenge River (dropped)
iii. Rural and industrial water supply scheme in the South Gobi Region (dropped)

iv. Integrated steel complex with infrastructure in the central region of Darkhan-Selenge
v. Extension of coal mine “Baganuur” LLC
vi. Substitute natural gas (SNG)

Component 2: Capacity Building and Knowledge Transfer (Appraisal cost: US$1.45 million, Actual cost: US$2.25 million). Under this component, the following activities were undertaken. (i) staff training and development of the basic principles, practices and techniques of various project preparation activities; (ii) training in preparing PPP (Public Private Partnership) transactions; (iii) expert support to transfer knowledge through on-the-job learning on the preparation of pilot PPP projects; and (iv) conferences to inform the business community about investment opportunities in Mongolia.

Component 3: Strengthening Groundwater Management (Appraisal cost: US$3.23 million, Actual cost: US$7.43 million). This component aimed to strengthen the capacity of local governments to manage groundwater resources in the Southern Mongolia region. Original activities included the development of groundwater management strategy and monitoring plan, data exchange protocols among stakeholders, guidelines for the design and construction of groundwater monitoring wells, procedures for the enforcement of abstraction licenses, and identification of revenue sources. In the 2014 restructuring, the River Basin Authority (RBA) and the River Basin Council (RBC) were created and became counterpart agencies, replacing the Groundwater Management Authority (GMA) and the Groundwater Management Council (GMC), in response to the 2012 Water Law amendments. An additional financing of US$4.2 million from the Mongolia-Australia Partnership for Sustainable Development Trust Fund (AusAid Trust Fund) was used to (i) establish an appropriate organizational structure for groundwater management, (ii) establish three RBAs in the South Gobi region, and (iii) implement key recommendations from the Water Resources Pricing Study (iv) implement key recommendations from the Water Resources Pricing Study; (iv) ensure a new financially sustainable institutional structure; and (v) increase transparency and public awareness of groundwater resources and improved water use and abstraction impacts.

Component 4: Project Management (Appraisal cost: US$0.63 million, Actual cost: US$1.33 million). This component covered the costs associated with the Project Management Unit (PMU), including the hiring of consultants to assist in project implementation and operating costs.

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

Project Cost: The estimated project cost was US$29 million. The cost was revised to US$22.7 million, and the actual cost was US$20.6million (ICR, p. 2).

Financing: The appraisal estimates of the credit (IDA-48880) were US$25 million, which was revised to US$18.7 million. The actual disbursement was 16.6 million. The estimates of additional financing of the AusAid grant (the Mongolia-Australia Partnership for Sustainable Development Trust Fund; TF-16382) was US$4.2 million (Project Paper 2014), of which US$4.05 million was allocated to the project (Amendment to the financing agreement 2015, page 3) and US$4.01 million was disbursed (ICR page 2).

Borrower Contribution: There was no indicative financing from the Borrower.

Dates: The project was approved on May 10, 2011, and became effective on November 20, 2011. The project undertook the following five restructurings:

First restructuring (March 18, 2014) was for a US$4.2 million additional financing (AF) of the AusAid grant, which was made to Component 3 with associated intermediate result indicators. The additional financing increased the total project financing from US$25.0 million to US$29.2 million. The restructuring also triggered five safeguard policies related to the identification of six subprojects to be supported under Component 1.

Second and third restructurings (July 27, 2016; September 27, 2017) were to extend the closing date from September 30, 2016 to September 30, 2017 and to September 30, 2019, respectively.

Fourth restructuring (December 28, 2018) was to cancel US$5.7 million of IDA funds related to the FS and ESIA preparation costs for the three cancelled subprojects.

Fifth restructuring (September 27, 2019) was to extend the loan closing date to December 31, 2019.

The project was closed on December 31, 2019, or three and a half years after the original closing date of September 30, 2016.

3. Relevance of Objectives

Rationale

Country and sectoral context. The project's objectives were substantially relevant to the country and sectoral context. Mongolia, with its rich mineral resources, was facing development challenges in attracting investment, promoting economic diversification through the mining sector, and developing a highly qualified human resource. The National Development Strategy (2009-2021) outlines a strategy to improve key human development indicators, transition to a knowledge-based economy, develop export-oriented private sector-led manufacturing and services, and exploit strategically important mineral resources (ICR para. 2). This direction is also valid in the latest development vision, the Mongolian Sustainable Development Vision (SDV) 2030, which aims to improve the competitiveness of the mining sector by encouraging a transparent and accountable extractive industry and ensuring a stable investment climate and environmentally friendly infrastructure for the mining sector (ICR para. 37). The project objectives of promoting mining investment and building local capacity have been substantially relevant to the challenges and the country's strategy.

Alignment with strategy. The project objectives are substantially aligned with the Bank's latest strategy: the Country Partnership Strategy (CPS) for FY13-17 identifies one of its focus areas as ensuring Mongolia's capacity to manage its mining economy in a sustainable and transparent manner The WBG Performance and Learning Review (PLR) of the CPS for the period FY13-F18 also recognizes the need to support the mining sector to sustain the current high growth through capacity building (ICR para 36).

Previous Sector Experience. The project was structured on the basis of the Bank's country and sector experience. The Mineral Sector Development Technical Assistance Project, completed in 2001, contributed extensive experience in institutional reform, stakeholder participation, information systems and databases, and institutional capacity building (PAD para 56). The World Bank was involved in hosting the Community, Artisanal and Small Scale Mining (CASM) Secretariat and learned lessons on the importance of a holistic approach to engaging with small-scale mining issues (PAD para 57). The project was complemented by the Bank-supported Southern Mongolia Infrastructure Strategy, which was an advisory work that assessed the key infrastructure options and trade-offs associated with the proposed mining development, and the associated environmental and social risks and mitigation measures (ICR para 7).

As discussed above, the project objective was substantially relevant to the country context and Bank's strategy. While mineral resources have been essential for the country's prosperity, capacity and investment have been key challenges for the mining sector. The World Bank has recognized the importance of building capacity to manage the mining sector. Overall, the objective is substantially relevant, but not highly relevant because the objectives of facilitating investments and enhancing capacity are insufficient to contribute directly to the development impact objectives of development of export-oriented private sector-led manufacturing and the competitiveness of the mining sector. Therefore, the relevance is rated **substantial**.

Rating

Substantial

4. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective

To facilitate investments in infrastructure to support mining and downstream processing activities, regardless of funding source.

Rationale

Theory of Change

The objective of facilitating investment of the mining activities was to conduct FS and ESIAs of priority mining-related infrastructure and downstream processing industry projects, backed by advisory support (an activity under Objective 2), thereby fostering concrete investment projects ready for bidding and financing (ICR para 12). This outcome was measured by the number of infrastructure assets ready for tender, and the intermediate outcome was the number of FSs of infrastructure projects implemented under the project. The TOC (ICR page 9) makes the assumption that the outcome would be met once investors would get involved as they would have more certainty and understanding of projects. Other key assumptions, which were not stated in the ICR, were that (i) there would be sufficient investor appetite, and (ii) the government would maintain its policy of prioritizing PPP financing.

Outputs

- FS for the Integrated Steel Complex (ISC), Synthetic Natural Gas (SNG), Baganuur Coal Mine Expansion projects were completed. The project also completed the FS and the Cumulative Impact

Assessment (CIA) for Baganuur Coal Mine Expansion and the CIA for the Tavan Tolgoi Coal Mine. **Achieved**.
- The number of direct beneficiaries supported by the project was 7,767 against the target of 1,400, of which 38.7% were female beneficiaries against the target of 30%. According to the task team, the direct beneficiaries were decision makers and officials from the various ministries and agencies of the sub-projects supported by the project, who received training, participated in study tours, knowledge exchange events, and investor workshops. This apparent substantial overachievement was due to an increase in the number of training sessions for reasons explained in the description of the first Output for Objective 2 below. **Exceeded**.

Outcome

- The ICR reported that the project partially achieved the outcome indicator of preparing two projects ready for tender given that the bidding/financing options did not adequately capture the various "funding sources", including PPPs, as the government intended to finance them with public funds (ICR para. 42). According to the task team, three administrative requirements were needed to initiate bidding for the project: (1) parliamentary approval of the project, (2) securing budget, and (3) an approval of Environmental Impact Assessment (EIA). In correspondence with the task team, it is not clear whether these requirements have been met for the subprojects The team informed IEG that the government had not yet made a decision on whether to use public or private financial resources due to political struggle and that subsequent requirements are yet to be determined. **Partially Achieved**.

While the project successfully prepared relevant FSs and ESIAs, inadequate evidence is presented as to whether the objective of facilitating investments was achieved. “Tendering ready” is not guaranteed since neither financing nor administrative requirements were satisfied. These findings reflect moderate to significant shortcomings in achieving outcomes. Therefore, the achievement of Objective 1 is rated **modest**.

Rating
Modest

OBJECTIVE 2

Objective
To build local capacity to prepare and transact infrastructure projects.

Rationale
Theory of Change

The objective of building local capacity was supported by the following two outcomes: (i) good practice and procedures documented and internalized in preparing projects; and (ii) groundwater management capacity to support mining and downstream industries strengthened. Three specific areas for establishing good practices and procedures are (i) prioritization and screening of investment projects, (ii) procurement of consulting services for the FS and ESIA, and (iii) management of public consultations for the proposed project (ICR para. 44). The project supported training, on-the-job learning and study tours for decision makers and staff of beneficiary institutions (ICR para 44). For groundwater management, the project aimed to improve the capacity for sustainable groundwater use and management (ICR para. 49). Groundwater management capacity is formally an intermediate outcome indicator, but the ICR identified it as an outcome indicator because (i) it is important for the long-term viability of water-intensive mining and industrial projects in Southern Mongolia and beyond, and (ii) it contributed significantly to the achievement of Objective 2 (ICR para 49). This review acknowledges the recognition of the ICR and regards it as an outcome level of performance. This objective was to be achieved through the implementation of groundwater management plans, data exchange protocols, borehole monitoring, abstraction licenses enforcement procedures, water resource pricing reviews, and training.

Outputs

- 99 trainings/events were conducted against the target of 10. This apparent substantial overachievement was due to the following reasons: (i) the diversity in the nature of priority projects proposed in sub-projects resulting in widespread training needs, which was not envisaged at the time of design; and (ii) the frequent turnover of staff in the counterpart team, necessitating training of new staff (ICR para 46). **Achieved**.
- Nine conferences and workshops were held against the target of five. The conferences/workshops were to promote understanding among the business community of potential investment opportunities in Mongolia's mining industry and infrastructure. **Achieved**.
- Hands-on training and operational support for government-funded projects and PPP concessions were partially accomplished. Consultants provided hands-on training to support the management of government-financed projects and shared good practices on managing PPP transactions with government officials, yet sub-projects were not selected for PPP financing and relevant support for administering PPP concessions was not realized. **Partially achieved**.
- The ICR (page 36) stated that issues impacting private investment were rapidly responded to and resolved with regard to subproject economic demand assessment, consideration of technology trade-offs, groundwater availability, public consultation, and stakeholder management. The task team reported to IEG that "issues" identified by government officials and private investors before and during project implementation, included lack of knowledge about proper procedures for environmental and social management, lack of coordination within the government, and inadequate groundwater management. The ICR did not measure how rapidly issues were resolved due to scarce data collection before and after the project. The ICR and the Task Team claim that capacity building and institutional strengthening have improved the government's ability to respond promptly. **Partially achieved**.
- An appropriate organizational structure for groundwater management has established and three RBAs have been set up in the Southern Gobi region. The task team informed IEG that the key elements of an appropriate organizational structure, such as improved data collection, better information management, increased efficiency, improved staff governance, were favorably received by the government, resulting in the establishment of three RBAs. **Achieved**.
- Key recommendations, including water resource pricing based on volumetric charges proposed in the Integrated Water Resources Management Plan, were accepted by the Ministry of Environment and Tourism. **Achieved**.
- The project supported a new financial structure for the three RBAs and RBCs that would be sustainable with additional revenue from the collection of the proposed water pricing fee. The fiscal budgets of the three agencies have been made available since 2017; however, the Task Team informed IEG that there was little evidence that water resource pricing had been implemented and collected as the government did not provide the Bank team with data on revenues from water resource pricing. **Partially achieved**.

- The project improved public awareness and transparency of groundwater resources and the impacts of water use and abstraction through three awareness workshops and public consultations on the Integrated Water Resources Management Plans of the three RBAs. These activities contributed to the government's adoption of a standardized approach for groundwater monitoring, management and access to monitoring data. **Achieved**.

Outcome

Good practice and procedures documented and internalized in preparing projects

- (i) Investment project prioritization and screening: The ICR reports that the government's ability to prepare and transact projects for private financing had improved based on the signing of 20 or 25-year power purchase agreements (PPAs) for eight renewable energy projects during the project period. These PPAs were partly attributable to the support of the project to the Ministry of Finance for training and capacity building on contingent liabilities. (ICR para 48). **Partly Achieved**.
- (ii) Procurement of consulting services for FS and ESIA: With the project support for FS and ESIA, the government had been able to conduct FS and ESIA/CIA and conduct public consultation and disclosure in the review, preparation and implementation of infrastructure projects, taking into account environmental and social impacts. Government agencies and their staff have demonstrated their ability to manage consulting services for the preparation of CIAs and ESIA for the Baganuur coal mine expansion and the TT coal mine (ICR para. 63). **Achieved**.
- (iii) Management of public consultation for the planned projects: The Consultation and Disclosure Planning Checklist developed under this project had been applied to all public consultations for the supported sub-projects and is becoming standard practice for the preparation of future investment projects in Mongolia. In addition, the project's involvement of key decision makers and government officials in ESIA consultations enabled them to actively engage with the consultation campaign on transboundary water impacts in Russia (ICR paras. 47 and 64). **Achieved**.

Groundwater management capacity to support mining and downstream industries strengthened

- The ICR (para 50) reported that the project demonstrated a successful model for the groundwater management framework in the establishment and operationalization of the RBCs as coordinating bodies and the RBAs as the implementing entities in three out of the 29 river basins in the country. Feedback from the ministry and the AusAid TF completion report confirmed that the three RBCs were more effective than the other RBCs. **Achieved**.
- Ability to manage groundwater was strengthened as a result of the RBAs being established and adequately staffed, groundwater monitoring and management plans implemented, monitoring wells set up and operational and the monitoring system functional with data being collected through online telemetry and routine data assessment through data loggers. **Achieved**.

As per above observations, good practice and procedures were substantially achieved as evidenced by the procurement of consulting services and public consultation. Groundwater management capacity also improved through operationalization of the RBA/RBCs as well as the implementation of groundwater monitoring and management plans. Shortcomings in achieving these outcomes were minor. Therefore overall, the achievement of Objective 2 is rated **substantial**.

Rating
Substantial

OVERALL EFFICACY

Rationale

The efficacy of the first objective “to facilitate investments in infrastructure to support mining and downstream processing activities, regardless of funding source” is **modest**. The efficacy of the second objective “to build local capacity to prepare and transact infrastructure projects” is **substantial**. On balance, the overall efficacy is **substantial**.

Overall Efficacy Rating

Substantial

5. Efficiency

Economic and financial analysis. The PAD (para. 46) and the ICR (para. 53) recognize that projects that provide solely TA and/or training are not amenable to standard economic and financial analysis resulting in such as net present values and economic and financial internal rates of return. The PAD (para. 47) also points out that (i) prioritizing and preparing the most economically beneficial projects will result in more efficient use of government funds and higher quality projects, and (ii) capacity building will promote better decision making at the program and project levels, which will result in administrative efficiency. Financial benefits are expected in the form of reduced costs of developing, constructing and operating private investment infrastructure facilities through International Finance Corporation (IFC)'s competitive and transparent PPP bidding and lower bid prices due to increased competition among prospective bidders.
The ICR argued that the project ensured technical and economic efficiency with due diligence and safeguard assessments, which led to improved prioritization of economically beneficial projects. The support of a high-level authority, the Project Steering Committee composed of all relevant ministries and agencies, ensured economic efficiency by assessing the highest economic benefit to the country and the impact on development (ICR para. 54). In terms of financial benefits, the ICR reported that PPP transactions did not materialize and cost savings from private financing were not demonstrated, while indicating that the consultants engaged in the project were selected in a cost-effective manner, contributing to the reduction in the procurement cost (ICR para. 54).

Implementation Efficiency: The project was designed to be simple while reflecting the needs and priorities of the government (ICR paragraphs 67 and 69), yet several factors led to significant delays in implementation. The involvement of a number of government agencies required a prolonged time to realize the outputs. Frequent turnover of counterpart staff, lengthy procedures for identifying and procuring sub-projects., The reluctance to consult with the Russian government on the impacts of large hydropower transboundary waters delayed project implementation. In addition, the frequent turnover of the Bank's task team leaders contributed to inefficiencies in project implementation (ICR para. 55).

Overall, the project was technically and economically efficient, but the financial benefits and implementation efficiency were limited. The project was significantly delayed due to the government's slow decision-making process, reluctance to consult with the Russian government, and frequent changes in the leadership of the Bank's task team. On balance, the efficiency of the project is rated as **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

The relevance of the project's objectives to the country context and the Bank's strategy is **substantial**. Overall efficacy is **substantial**, given the balance between the moderate results of the first objective and the substantial achievement of the second objective. Efficiency is **modest** due to the delay in the project implementation. Hence, in line with the Bank's ICR preparation guidelines dated September 27, 2018 (Annex H, page 37), the project's overall outcome is **moderately satisfactory.**

a. Outcome Rating

Moderately Satisfactory

7. Risk to Development Outcome

Meeting economic development needs and population and other stakeholder demands

As specified in the TOC (ICR page 9), the two long-term impacts of the project - (i) sustainably developed mining infrastructure and downstream activities, and (ii) meeting the economic development needs and demands of the population, users, and the country - depend on (i) the realization of FSs, and (ii) sustainable institutional capacity (ICR para 94-96).

Realizing the outcomes of FS-intensive outcomes

The risks of realizing FS-intensive outcomes are high. The ICR noted that the decision to start the ISC project had not been announced and that the SNG project needed time to gradually develop demand for its financing (ICR para 94). According to the task team, the government was in an ambiguous position as to whether to use public or private sources of funding and had not decided when and how to start the project.

Sustaining institutional capacity

The risk to sustaining institutional capacity is high. Frequent turnover of government and staff, which occurred five times during the project implementation period, may continue after the project ends, posing a risk of maintaining absorbed capacity. Financial sustainability is also not guaranteed: part of the operating costs of the three RBCs have been covered by the project, but this needs to be replaced by the national budget, local government, user fees, and donor-funded subsidies. Ongoing data collection and analysis, as well as revision of water management plans, require substantial budgetary resources, which are not assured (ICR para 96).

8. Assessment of Bank Performance

a. Quality-at-Entry

The project was designed to be simple, with advisory support and assistance in preparing the FS and ESIA. However, while the team initially planned for the government to decide on subprojects, the government could not commit to any of the investment projects, and the Bank's active involvement in the selection and screening of investment projects became necessary. As a result, the project had difficulty in identifying comprehensive risks and taking appropriate mitigation measures by the time of appraisal (ICR para. 89). The ICR (para 89) also indicated that the project did not foresee the potential impact of evolving political conditions and unforeseeable commodity price cycles on project operations, and the M&E approach was not solid enough to help recognize future course adjustments and ensure sustained implementation outcomes.

Quality-at-Entry Rating

Moderately Unsatisfactory

b. Quality of supervision

Supervision was actively carried out by the Bank team. Due to the limited institutional capacity of the client, the Bank closely supported the client in improving financial management, providing hands-on assistance in planning consultation activities, preparing pre- and post-consultation materials, accompanying the client to key consultations held in Russia and Mongolia, providing quality feedback, and safeguard measures, investigations, and prompt response to requests for clearing of reports (ICR paragraph 90). The Bank team also property intervened regarding the course of actions to be taken as a result of the Inspection Panel cases (ICR para 91, see more details in Section 10. safeguards). Given the reluctance of the government to conduct consultations with the Russian government on transboundary water impacts related to the Shuren and Orkhon projects (ICR para. 55), the Bank team played a key role in encouraging the client to conduct higher-level quality consultations. The Bank could have been more proactive to advance the PPP agenda and the Government's investment plans for the subprojects since the FSs had already been completed in 2017 and 2018.

Quality of Supervision Rating

Moderately Satisfactory

Overall Bank Performance Rating

Moderately Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

The project's results framework showed a clear logic for achieving its objectives. However, there were some shortages in its design: the ICR noted that results related to the facilitation of investments from different funding sources were not fully captured in the PDO indicators, which remained unaddressed at closing (ICR para. 77). It noted that that the intermediate indicator on “feasibility studies for infrastructure project” had two annual values, which were incorrect and fixed during the 2014 restructuring. Furthermore, the status of the outcome indicator "ready for tender" was not sufficient to account for the elements required to initiate the tender on the basis of the FSs prepared. These shortcomings in the theory of change and corresponding results framework were significant to monitor and assess the stated objective and results chain.

b. M&E Implementation

The ICR (para. 78) reported that all Implementation Support and Review (ISR) reports documented the achievement of relevant indicators through regular data collection and reporting mechanisms. The ICR reflected that more detailed records of the study tours, meetings, training time, location, participants, and topics could have improved the usefulness of the evaluation at the end of the training. However, the inadequate M&E design had not been fixed during the project supervision.

c. M&E Utilization

The ICR reported that M&E could have been used more effectively in project management. The ICR noted that there was limited follow-up and suggestions for improvement based on outcome indicators (ICR para. 79).

In short, the M&E design was weak. While the design presented a clear causal chain, the identification of indicators to convey the causal logic was inadequate and not rectified during the life of the project. However, M&E implementation and utilization were adequate, Improvements were needed through detailed data collection and engagement with the client. Overall, quality of M&E was **modest**.

M&E Quality Rating

Modest

10. Other Issues

a. Safeguards

The project was classified as Environmental Category A. At the time of the appraisal, the project triggered the Bank's safeguard policies on Environmental Assessment (OP/BP 4.01), Natural Habitats (OP/BP 4.04), Physical Cultural Resources (OP/BP 4.11), and Involuntary Resettlement (OP/BP 4.12). At the 2014 restructuring, additional safeguard policies were in force that included Natural Habitats, Safety of Dams, and Projects on International Waterways. An Environmental and Social Management Framework (ESMF) was prepared to screen safeguards required for sub-projects, incorporate detailed safeguards requirements for specific projects, and provide a framework for implementation and reporting of safeguards activities. The initial phase of safeguard implementation was inadequate due to scarce involvement of Bank staff and lack of stakeholder engagement. The Bank's staffing was limited to conduct early safeguards screening for all six sub-projects, which led to inadequate consultations and information disclosure by the client. This raised concerns from relevant communities and NGOs, resulting in three requests for investigations to the Inspection Panel. One from community representatives and local organizations, alleging that two sub-projects, the Shuren Hydropower Project and the Orkhon Gobi Water Use Project, could have irreversible environmental and social impacts on the Selenge River in Mongolia and Lake Baikal in the Russian Federation. The case was resolved when the Panel reported in the third and final report that the Panel did not recommend further investigation given Bank management commitment to include various environmental assessment tools. These included an REA, a CIA and an analysis of alternatives, in addition to integrating comments from the consultations in the revised Terms of References of the Regional Impact Assessments and CIAs (ICR Box 1). The second and third investigations, related to the Baganuur mine expansion and water management subprojects, were requested by two NGOs and residents of Oyu Tolgoi Watch and Gurvantes. The Inspection Panel concluded that the project activities in question were being implemented in accordance with the Bank's policies and procedures and recommended to the Board that both cases be closed.

b. Fiduciary Compliance

Procurement: Procurement was overall satisfactorily performed. The procurement plan was regularly updated and no major deviations were observed during the procurement process. Although a few minor procurements slowed down the procurement process, overall, the responsiveness of procurement activities reflected the high responsiveness of this project to client inquiries.

Financial management: The ICR (para 87) reported that the interim financial report and annual audit reports were submitted and were unqualified. Measures taken to improve the financial management capacity have resulted in a satisfactory financial management system. A financial management manual had been developed and regular supervision missions have been conducted to maintain the quality of financial management. According to the task team, the final audit report was received on time and was deemed acceptable.

c. Unintended impacts (Positive or Negative)

NA

d. Other

NA

11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Moderately Satisfactory	Moderately Satisfactory	
Bank Performance	Moderately Satisfactory	Moderately Satisfactory	
Quality of M&E	Modest	Modest	
Quality of ICR	---	Substantial	

12. Lessons

When designing PPP projects in an evolving political climate where PPP transactions are limited, projects should seek simpler transaction modalities that can be developed incrementally to incorporate the more nuanced legal mechanisms needed for riskier transactions.

The project explored opportunities for public-private partnerships for sub-projects for which feasibility studies, ESIAs, and CIAs were conducted. The project supported capacity building for PPP transactions, organized nine meetings and workshops to generate investor interest, and established a project steering committee composed of all relevant ministries and agencies to facilitate the government's decision making in selecting the most impactful projects considering the funding sources. Despite the comprehensive activities undertaken under this project, PPP subprojects had not been implemented by the end of the project. Given the changing political climate in the country and the high turnover of government officials, it is important to create a relatively simple transaction modality for potential investments in order to strengthen the PPP framework. Activiies can then be developed in stages to incorporate the more nuanced legal mechanisms required for riskier transactions. In addition, it is important to create a relatively simple transaction pattern for potential investments, which can then be developed in stages to incorporate the more subtle legal mechanisms needed for higher-risk transactions.

It is essential to start screening safeguards and stakeholder engagement early in the project, especially when the client's capacity is limited.

At the time of project design, the Bank envisaged that the client would be able to identify sub-projects and conduct feasibility studies as early as possible. However, political complexities and limited client capacity hindered the government from selecting subprojects early, delaying the Bank's involvement and limiting the time to fully investigate the risks associated with the subprojects. The inadequate assessment of safeguards attracted the attention of civil society and led to calls for an Inspection Panel. This series of inadequate responses have resulted in three lessons learned. First, the client's capacity to select and manage subprojects needs to be assessed before the project begins. Delays in assessing capacity shortened the Bank's available engagement time and resulted in inadequate subproject preparation and risk identification. Second, when selecting sub-projects, early screening of safeguards would enable potential impacts to be identified and mitigation measures to be established at that time. The World Bank needs to mobilize the sector and safeguard experts to conduct early engagement with clients. Third, identifying, communicating with, and engaging early with stakeholders who may benefit from or influence the feasibility study are useful in building a shared understanding with stakeholders about the risks and opportunities of the project. Stakeholder identification informs the engagement strategy by mapping the relationship of stakeholders to the project, their attitudes, influences, criticisms, and objections.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR was well structured and provided evidence-based findings and conclusions. Observations were candid, succinct, and analysis and presentation of evidence were clear, including the sequence of restructurings, additional financing and selection of the sub-projects. The Relevance of Objectives section well captured the macro and sectoral environment that necessitated the project. This would have been more compelling if the ICR had presented how this objective would transform the mining industry and improve the investment climate.

The analysis of efficacy was candid in its consideration of whether investments were being achieved for Objective 1, regardless of the source of funding. This analysis would have been more useful if the key obstacles and challenges to enabling PPP transactions could be identified in light of the theory of change. Evidence of enhanced capacity (objective 2) was well presented in the main text and results framework; yet, the presentation of evidence on groundwater management strategies (e.g., monitoring plans, data exchange protocols, guidelines for the design and construction, enforcement procedures) and the financial viability of RBCs/RBAs was limited.

The efficiency section attempted the most feasible analysis given the technical assistance nature of the project. The ICR clearly described the safeguard issues raised by civil society; the reasons for the Inspection Panel (IP) initiating an investigation; and how the Bank team responded IP requests. Overall, the ICR provided a clear overview, narrative, and quality of evidence and analysis, with some areas for improvement. Quality of ICR is substantial.

a. Quality of ICR Rating

Substantial