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INTERNATIONAL DEVELOPMENT ASSOCIATION

RESTRUCTURING PAPER

ON A

PROPOSED PROJECT RESTRUCTURING  
OF  
MINING SECTOR INSTITUTIONAL STRENGTHENING TECHNICAL  
ASSISTANCE PROJECT  
CREDIT/GRANT

June 26, 2008

TO

MONGOLIA

December 18, 2013

Oil, Gas and Mining Unit  
Sustainable Energy Department  
Sustainable Development Network

Country Department EACCF  
East Asia and Pacific Region

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## ABBREVIATIONS AND ACRONYMS

EIA	Environmental Impact Assessment
EMGL	Erdenes MGL (Mongolia)
ETT	Erdenes Tavan Tolgoi
FA	Financing Agreement
IMF	International Monetary Fund
IPO	Initial Public Offering
MINIS	Mining and Infrastructure Project financed by the World Bank (P118109) including Additional Financing (P145439)
MMRE	Ministry of Mineral Resources and Energy (now Ministry of Mining)
MoEGD	Ministry of Environment and Green Development (formerly Ministry of Environment and Tourism)
MoF	Ministry of Finance
MoM	Ministry of Mining (formerly Ministry of Mineral Resources and Energy)
MRPAM	Mineral Resources and Petroleum Authority of Mongolia (now Mineral Resources Authority of Mongolia)
MRAM	Mineral Resources Authority of Mongolia (formerly Mineral Resources and Petroleum Authority of Mongolia)
MSISTAP	Mining Sector Institutional Strengthening Technical Assistance Project
MTA	Mongolian Tax Authority
MTR	Mid-Term Review
OECD	Organization for Economic Co-operation and Development
OHS	Operational Health and Safety
OP	Operational Manual
PAD	Project Appraisal Document
PDO	Project Development Objective
PIU	Project Implementation Unit
PSC	Project Steering Committee
SESA	Strategic Environmental and Social Assessment
SWF	Sovereign Wealth Fund
TA	Technical Assistance
TT	Tavan Tolgoi

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Sector Manager:	Christopher Sheldon
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**MONGOLIA**  
**Mining Sector Institutional Strengthening Technical**  
**Assistance Project**

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## DATA SHEET

*Mongolia*

*Mongolia Mining Sector Technical Assistance Project (P108768)*

*EAST ASIA AND PACIFIC*

*SEGOM*

Report No: RES12832

Basic Information									
Project ID:	P108768			Lending Instrument:	Technical Assistance Loan				
Regional Vice President:	Axel van Trotsenburg			Original EA Category:	Partial Assessment (B)				
Country Director:	Klaus Rohland			Current EA Category:	Partial Assessment (B)				
Sector Director:	Subramaniam V. Iyer			Original Approval Date:	26-Jun-2008				
Sector Manager:	Christopher Gilbert Sheldon			Current Closing Date:	31-Dec-2013				
Team Leader:	Ekaterina Mikhaylova								
Borrower:									
Responsible Agency:	Ministry of Finance								
Restructuring Type									
Form Type:	Full Restructuring Paper			Decision Authority:	Board Approval				
Restructuring Level:	Level 1								
Financing ( as of 10-Nov-2013 )									
Key Dates									
Project	Ln/Cr/TF	Status	Approval Date	Signing Date	Effectiveness Date	Original Closing Date	Revised Closing Date		
P108768	IDA-44890	Effective	26-Jun-2008	07-Oct-2008	04-May-2009	31-Dec-2012	31-Dec-2013		
P108768	IDA-H4110	Effective	26-Jun-2008	07-Oct-2008	04-May-2009	31-Dec-2012	31-Dec-2013		
Disbursements (in Millions)									
Project	Ln/Cr/TF	Status	Currency	Original	Revised	Cancelled	Disbursed	Undisbursed	% Disbursed
P108768	IDA-44890	Effective	XDR	3.15	3.15	0.00	2.07	1.08	66
P108768	IDA-H4110	Effective	XDR	2.57	2.57	0.00	2.15	0.42	83

<b>Policy Waivers</b>		
Does the project depart from the CAS in content or in other significant respects?	Yes [ ]	No [ X ]
Does the project require any policy waiver(s)?	Yes [ ]	No [ X ]
<b>A. Summary of Proposed Changes</b>		
<p>This proposed level 1 restructuring seeks approval of the Board to revise the Project Developmental Objective (PDO) for the Mining Sector Institutional Strengthening Technical Assistance Project (MSISTAP, P108768). The restructuring package also includes (i) extension of the Project closing date from December 31, 2013 to March 31, 2015; (ii) updates to the project design, including revision of the results framework; (iii) an update of the safeguards arrangements (triggering OP/BP 4.12); (iv) revision of the disbursement categories; and (v) restructuring of the non-standard legal covenants. MSISTAP remains crucial in building capacity of the Government of Mongolia to regulate an important and rapidly expanding mining sector. The proposed restructuring will reflect the changing political economy and address the deficiencies of the original project design. An extension of the closing date will ensure completion of project activities and the higher level of achievement of its development objectives.</p>		
Change in Implementing Agency	Yes [ ]	No [ X ]
Change in Project's Development Objectives	Yes [ X ]	No [ ]
Change in Results Framework	Yes [ X ]	No [ ]
Change in Safeguard Policies Triggered	Yes [ X ]	No [ ]
Change of EA category	Yes [ ]	No [ X ]
Other Changes to Safeguards	Yes [ ]	No [ X ]
Change in Legal Covenants	Yes [ X ]	No [ ]
Change in Loan Closing Date(s)	Yes [ X ]	No [ ]
Cancellations Proposed	Yes [ ]	No [ X ]
Change to Financing Plan	Yes [ ]	No [ X ]
Change in Disbursement Arrangements	Yes [ ]	No [ X ]
Reallocation between Disbursement Categories	Yes [ X ]	No [ ]
Change in Disbursement Estimates	Yes [ X ]	No [ ]
Change to Components and Cost	Yes [ X ]	No [ ]
Change in Institutional Arrangements	Yes [ ]	No [ X ]
Change in Financial Management	Yes [ ]	No [ X ]
Change in Procurement	Yes [ X ]	No [ ]
Change in Implementation Schedule	Yes [ ]	No [ X ]
Other Change(s)	Yes [ ]	No [ X ]
Appraisal Summary Change in Economic and Financial Analysis	Yes [ ]	No [ X ]
Appraisal Summary Change in Technical Analysis	Yes [ ]	No [ X ]
Appraisal Summary Change in Social Analysis	Yes [ X ]	No [ ]
Appraisal Summary Change in Environmental Analysis	Yes [ X ]	No [ ]
Appraisal Summary Change in Risk Analysis	Yes [ X ]	No [ ]

## **B. Project Status**

The Mining Sector Institutional Strengthening Technical Assistance Project, Grant No H411-MN and Credit No 4489 MN, was approved on June 26, 2008, and became effective on May 4, 2009. The current closing date is December 31, 2013 (after a one year extension approved on July 2, 2012 following the Mid-Term Review). Project disbursements as of November 2013 are USD \$6.52 million out of USD \$8.7 million (or 75% of the total).

At the project's appraisal, the mining sector was recognized as a key and rapidly growing part of Mongolia's economy. In 2007, mining directly accounted for about 20 per cent of real GDP, 56 per cent of gross industrial output, 69 per cent of exports, and 36 per cent of government revenue. At the time, the World Bank estimated that the mining sector had the potential to "increase output substantially over the next decade and is projected to double or even triple from 2005 levels by 2010" under the right conditions. In 2013, the mining sector is still a crucial part of the Mongolian economy. Despite the slowing of commodities demand from China (Mongolia's primary consumer), the sector experienced 8.9 per cent annual growth in 2012, up from 7.3 per cent growth in 2011. Although the mining sector's share of GDP has been decreasing since 2009 (15.7 per cent of GDP in 2012), other industries associated with mining industry investment (construction, transportation and other services) are increasing, and there has been a 17.9 per cent growth in mining sector employment since 2010. Much of Mongolia's mineral potential remains untapped – only 15 per cent of the country is fully mapped, and only 17 per cent is under exploration. Underlying these statistics is the reality that commodity demands will increase over the long term, and the enormous potential of Mongolia's mineral resources will remain valuable.

Overall, MSISTAP remains very relevant to the economic development of Mongolia, given the prominence of the mining industry and the pace of the reforms it is reaching, albeit with a delay. Mongolia is currently developing a mining policy, updating its mining legislation, and working towards updating its capacity to manage and supervise the mining sector in line with its potential. At the same time, the government is engaged in startup of one of the largest mining projects in the world (the Oyu Tolgoi copper project by Rio Tinto with financing approved from IFC, MIGA and private banks), and assessing options for developing its strategic mineral assets, all of which will require strong capacity to structure the deals and attract investment. Increasing benefits to the local population from mine development and related infrastructure while mitigating negative impacts of mine development on environment and livelihoods are being given high priority.

To date, MSISTAP's top achievements included:

- Support to the Ministry of Finance (MoF) and Mongolian Tax Authority (MTA) has enabled the establishment of a mineral taxation unit, and refined the Sovereign Wealth Fund (SWF) framework. Tax treaties and the taxation regime were updated, resulting in higher collections and revenues. However, it is noted that political issues which were not within the control of the project also drove macro-fiscal policies to their low point in 2012-2013.
- A modern computerized mining cadastre system has been developed in the Mineral Resources Authority of Mongolia (MRAM), and is accessible on-line for information purposes. The Mining cadastre is a major milestone in upgrading and streamlining the management of mining licenses and improving transparency and data access. While there is still an on-going ban on new exploration licenses (see sections that follow) the cadastre system is in use to administer existing licenses, and is fully set up to start issuing licenses once the ban is lifted. The procedures for mineral assets tendering have also been uploaded and are ready to be activated once the new law is in force.
- The state owned mining company, Erdenes MGL, has received extensive training and technical support, as well as advice on corporate strategy and assessment of some of its mineral assets, including detailed studies of Tavan Tolgoi coal deposits and Shivee Ovoo coal, with the latter not resulting in follow up action or investments, while TT proceeding to development.
- While many of the project outcomes to-date were meaningful, and the project was rated Moderately Satisfactory for progress toward PDO and implementation from its commencement to early

2013, both of these ratings were downgraded to Moderately Unsatisfactory in March 2013. The downgraded ratings stem from the following factors:

- the underestimated influence of the electoral cycle in Mongolia on mining sector reforms. Prior to elections, mining and its economic impacts tend to become the center piece for debate, making decision-making by the relevant ministries that manage the sector difficult. MSISTAP experienced two election cycles during its implementation period – the 2008 elections, which postponed effectiveness by a year, and almost a year of inactivity around the 2012 elections, including changes in political direction and the restructuring of the ministries following the elections;
- the original project design did not adequately account for the strength of influence of the political situation on mining reform, and was overly optimistic and ambitious in terms of the institutional reforms that could be realistically achieved within the project life-time. This included an ambitious PDO and results framework combined with limited flexibility of the project to address the changing political economy, and the postponement of an institutional review of mining governance until the last phase of the project, which de facto triggered the postponement of many policy-level decisions;
- as an update of the Mining Law has been pending since 2010, the Government has suspended the issuance of new exploration licenses and has banned the transfer of licenses between companies, which strongly impacted the full roll out of the mining cadastre component; this delay with the Law also impacted the regulatory component, which was designed to prepare the supporting regulations of the Law and is subject to a consultative process;
- restrictions by the Security Council on the disclosure of geological data negatively impacted project components related to the update of the geological database.

This restructuring paper addresses the timing issues and updates the political economy considerations and risks following the 2012 elections; it also reflects some of the recommendations of the mid-term review of 2011. The Government has made meaningful progress during 2013 in regards to MSISTAP. There is strong ownership by the updated Project Steering Committee (PSC), which meets regularly and ensures timely decisions. The Ministry of Mining assumed leadership of the implementation of the core components. The implementation and fiduciary responsibilities remain within the Ministry of Finance which, in addition to the implementation of Component 1 of the project, provides high level oversight and guidance for the entire project. The 2013 Procurement Plan for MSISTAP was an example of proactivity and realism, which led to more timely and efficient decision-making, with most of the activities planned for the extension period reaching pre-contract signing stages at this time (with signing pending approval of project restructuring). A 15-month extension will enable the Project to come closer to achieving its PDO. The restructured project will better reflect the priorities and linkages between project activities and outcomes, and will better align with its technical assistance nature.

This proposal meets the criteria of OP/BP 10.00 for extension of closing dates; it continues to support actions leading to improved economic development and contributes to poverty reduction by improving governance of one of the most prominent economic growth sectors in Mongolia. Although the Development Objective and Implementation Progress ratings are "Moderately Unsatisfactory" at this time as mentioned above, the new government is committed to the project's objectives and to improving its implementation performance as illustrated in the paragraph above. Implementation arrangements will remain unchanged; the Project Implementation Unit under the Ministry of Finance has proved to be effective and project management and fiduciary ratings for MSISTAP are consistently satisfactory. There are no outstanding audit reports or audit reports not satisfactory to the Bank. There are no disbursement related issues or suspensions.

With the revised PDO, the project's objectives will be achievable. Under the revised timetable and procurement plan, MSISTAP is well placed to complete all its planned activities by December 2014, leaving an additional three months for the government to undertake monitoring and evaluation activities for the project.

## Development Objectives/Results

### **Project Development Objectives (P108768 - Mongolia Mining Sector Technical Assistance Project)**

#### Original PDO

The project development objective (PDO) for this first phase of support is 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.

#### **Change in Project's Development Objectives**

Please describe the change and explain the reason for change

Based on the country perception and the Bank's assessment, the first part of the PDO remains fully relevant and is sustainable on its own merit. It clearly links with the project scope and is achievable; 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. The new PDO, therefore, proposes to drop the objective of fully commercializing Erdenes, MGL as redundant and overly ambitious time-wise.

Erdenes MGL is a state-owned holding company which controls the government's shares in strategic mineral assets in Mongolia, including mega projects such as the Oyu Tolgoi copper, gold and molybdenum deposit (the state part of the project is managed by the project company Erdenes Oyu Tolgoi, LLC) and the Tavan Tolgoi coking coal project (managed by the project company Erdenes Tavan Tolgoi, LLC), as well as older mining projects including Erdenet copper (run jointly with Russia since 1974). The company was conceived prior to MSISTAP in 2007, and its charter was approved in May 2012 (MSISTAP supported assessment of options and other preparatory work). Erdenes MGL remains a strong political asset for the Government of Mongolia and the 2012 elections resulted in an increase of the state's control over Erdenes MGL operations; the company's charter is in need of an update at this time due to these recent changes. This reflects the company's importance as a key government instrument to manage state equity in mineral development projects but also highlights the risks and at times fluidity of the situation with this state owned enterprise.

In view of the above, this part of the original PDO is assessed, in addition to being redundant, as having been overly ambitious and prescriptive at the on-set of the project given the political nature of the mining sector and state ownership in particular. While Erdenes MGL makes progress on improving its governance to be able to operate as a commercial entity, it is unlikely that it can reach full OECD compliance within the project's lifetime. Despite the change in the PDO, the company's importance to the mining sector and the regulatory framework is such that its inclusion in the project remains meaningful and relevant. It is acknowledged that MSISTAP as a technical assistance project is not a suitable instrument to influence this policy-level decision, but it is well placed to provide technical assistance to the company and the government to inform the decision making. The final phase of the project will continue supporting Erdenes MGL governance reforms, including the financing of a business strategy, an update of its legal statutes and charter as well as of the project agreements with its subsidiaries, establishment of a modern information management system to ensure better transparency and accountability between the holding and its project companies. The company remains committed to the earlier agreed path of development, but the pace of the reforms has to remain commensurate to policy decision-making and market conditions.

#### Proposed New PDO

The Project's objective is to establish key pieces of the policy, fiscal, legal, regulatory and institutional framework for the mining and extractive sector that meets the needs of the public sector, industry, and civil society.



## **Change in Results Framework**

### Explanation:

The original results indicators are complex and some of them cannot be fully attributed to the project. Based on the progress-to-date and in view of the revision of the PDO and the need to simplify the design, the indicators are proposed to be revised. Annex 1 provides details, and the two major changes include:

- a. The indicator “Increased number of outreach and education programs for artisanal and small scale miners on technology, safety, and environmental issues” will be dropped, because the corresponding sub-component was dropped (see section Components below).
- b. Reflecting the change in the PDO in relation to Erdenes MGL, the PDO-level indicator “Establishment of good practice internal management systems and standard operating procedures for state equity holding company Erdenes MGL” has been dropped, and a modified indicator is added to the intermediate indicators (“Erdenes MGL financial reports are provided quarterly to the Board of Directors”). While meaningful progress is expected to be made in many instances of improving of Erdenes MGL governance, with only 12 to 15 months left to complete the project, and given that steps towards adopting new structures and documentation for Erdenes MGL will require internal governmental processing and approvals which are outside of control of the project, MSISTAP will be conservative in estimating its achievements and will instead rely on report details in the Implementation Completion Report.

## **Compliance**

### **Change in Safeguard Policies Triggered**

#### Explanation:

As part of this Project restructuring, the Bank reviewed safeguards arrangements for the Project and found deficiencies which are being addressed as part of the package. Details are provided in Annex 2 and in summary key safeguards issues are as follows:

- a. At the project appraisal, no specific mineral deposit level work was envisaged and no mechanism was created for management of environmental and social risks that might have resulted from studies and assessments, which in hind-sight was a deficiency of the original design.
- b. In 2010, MSISTAP financed a pre-feasibility study for East Tsankhi mine - a project of Erdenes Tavan Tolgoi (ETT), a state-owned mining company under the Erdenes MGL holding company, which continues to be in operation. The study assessed the geological potential of the coalfield and technical issues to start up the operation of a 15 million ton per annum 30 year mine-life mine; the study was also in part intended to define targets for the planned (at that time) initial public offering for ETT. With hindsight, safeguard policies should have been applied to the study.
- c. OP/BP 4.12 (Involuntary Resettlement) was not triggered at appraisal, but at the time of this restructuring the project recommends to trigger this safeguard. This is triggered for the pre-feasibility study for East Tsankhi where relocations of two winter shelters took place in 2010 and more resettlements may be taking place as ETT project expands (not related to MSISTAP or East Tsankhi study). See Annex 2 for more details.
- d. OP/BP 4.01 (Environmental Assessment) and Category B (partial assessment) classification assigned at appraisal remain relevant for both the earlier envisaged technical advice to improve enabling environment for future investments in the mining sector, as well as for additional safeguards work to be completed in view of the East Tsankhi study.

As part of MSISTAP restructuring, the Recipient committed to an Action Plan (see Annex 2) which will help to ensure follow up and compliance with the World Bank requirements of the possible effects of pre-feasibility study carried out for ETT, including (i) carrying out of cumulative impact assessment for ETT (to be funded under the Mining Infrastructure Investment Support (MINIS) project ), (ii) updating ETT’s

environmental and social management system (funded through MSISTAP), and (iii) preparing of a Resettlement Policy Framework (RPF) and Resettlement Action Plan (RAP) for ETT (funded through MSISTAP). The Recipient is committed to implementing the Action Plan in close collaboration with the Bank. The Restructured project will ensure that adequate resources will be provided to implement the activities set forth in the Action Plan. The resources needed to implement the activities will be determined more precisely and confirmed during the implementation of the restructuring based upon the ToRs to be developed in line with achieving the objectives of the Action Plan.

Strategic Environmental and Social Assessment (SESA) for mining sector. The project is also undertaking a SESA of the mining sector. It aims to diagnose the key environmental and social problems and opportunities associated with the rapid growth of Mongolia's mining sector, identify the policy, legal, regulatory, and institutional adjustments and capacity-building actions needed to minimize the adverse environmental and social impacts of mining operations and associated infrastructure development, while enhancing the positive impacts; and propose specific measures that Government of Mongolia can implement to improve the environmental and social sustainability of mining. The scope of SESA was developed in a consultative manner with the Government, CSOs and private sector. It is in the contracting stage pending approval of MSISTAP restructuring. This strategic and consultative guidance of SESA will, inter alia, inform further EIA-related work by ETT as well as other mines to comply with their legal and regulatory obligations. SESA will include GIS mapping of cumulative impacts from mining and related infrastructure country wide. SESA is expected to be completed by November 2014.

<b>Current and Proposed Safeguards Policies Triggered:</b>	<b>Current</b>	<b>Proposed</b>
Environmental Assessment (OP) (BP 4.01)	Yes	Yes
Natural Habitats (OP) (BP 4.04)	No	No
Forests (OP) (BP 4.36)	No	No
Pest Management (OP 4.09)	No	No
Physical Cultural Resources (OP) (BP 4.11)	No	No
Indigenous Peoples (OP) (BP 4.10)	No	No
Involuntary Resettlement (OP) (BP 4.12)	No	Yes
Safety of Dams (OP) (BP 4.37)	No	No
Projects on International Waterways (OP) (BP 7.50)	No	No
Projects in Disputed Areas (OP) (BP 7.60)	No	No

#### **Change in Legal Covenants**

Explanation:

Several dated covenants are proposed to be restructured in conjunction with the changes to the PDO and updated targets for capacity building. In addition, new covenants are proposed to be added to reflect updates to the safeguards arrangements.

<b>Ln/Cr/TF</b>	<b>Finance Agreement Reference</b>	<b>Description of Covenant</b>	<b>Date Due</b>	<b>Status</b>	<b>Recurrent</b>	<b>Frequency</b>	<b>Action</b>
IDA-H4110	Schedule II, Section V, 1	Established/adopted corporate systems, legal framework and structure acceptable to the Association, consistent with those of a commercial entity operating under	30-Jun-2010	Not complied with	<input type="checkbox"/>		Revised

		OECD Principles of Corporate Government					
IDA-H4110	Schedule II, Section V, 1	Erdenes MGL completed review of options and recommendations for the revision of its corporate systems, legal framework and structure with an objective to make its structure more consistent with those of a commercial entity operating according to OECD standards or similar as accepted by the Association for corporate governance.	30-Jun-2014	Not complied with	<input type="checkbox"/>		Proposed
IDA-H4110	Schedule II, Section V, 1	Commenced, and thereafter continue, with the preparation and public disclosure of quarterly activity reports in a manner and substance acceptable to the Association	30-Jun-2010	Not complied with	<input type="checkbox"/>		Marked for Deletion
IDA-H4110	Schedule II, Section V, 1	Commenced, and thereafter continue, with preparation and public disclosure of annual reports documenting the company's activities and financial condition (including audited financial statements),	30-Jun-2010	Partially complied with	<input type="checkbox"/>		Marked for Deletion
IDA-H4110	Schedule II, Section V, 1	Completed the preparation of a strategy and implementation plan, in a manner and substance satisfactory to the Association, for the listing of shares of the company on the Mongolian Stock Exchange	30-Jun-2011	Not complied with	<input type="checkbox"/>		Marked for Deletion
IDA-H4110	Schedule II, Section V, 2	Select and engage the services of an external independent auditor for the Project under terms of reference and with experience and qualifications acceptable to the Association	31-Mar-2009	Complied with	<input type="checkbox"/>		No Change
IDA-44890	Schedule II, Section I, C	Cause MOF and MRPAM to develop and furnish to the Association for comments, by no later than January 31, 2010, a set of draft model investment	29-Jan-2010	Not complied with	<input type="checkbox"/>		Revised

		contracts for the extractive industries in Mongolia, in form and substance satisfactory to the Association					
IDA-44890	Schedule II, Section I, C	Recipient to cause MoF to develop and furnish to the Association a set of draft model Stabilization Agreement or equivalent for mining and draft model Production Sharing Agreement or equivalent for petroleum, in form and substance satisfactory to the Association	30-Jun-2014	Not complied with	<input type="checkbox"/>		Proposed
IDA-44890	Schedule II, Section I, C	Thereafter, by no later than March 31, 2010, draw up final drafts of such model investment contracts, taking into consideration the comments provided by the Association.	31-Mar-2010	Not complied with	<input type="checkbox"/>		Marked for Deletion
IDA-44890	Schedule II, Section I, C	Complete and furnish to the Association for discussion, by no later than June 30, 2010, the mining sector institutional assessment study in form and substance satisfactory to the Association	30-Jun-2010	Not complied with	<input type="checkbox"/>		Revised
IDA-44890	Schedule II, Section I, C (a)	Recipient to complete and furnish to the Association for discussion the mining sector institutional assessment study in form and substance satisfactory to the Association	31-Mar-2014	Not complied with	<input type="checkbox"/>		Proposed
IDA-44890	Schedule II, Section I, C	Thereafter, implement the study recommendations as discussed with the Association		Not complied with	<input checked="" type="checkbox"/>	Yearly	No Change
IDA-44890	Schedule 2, Section D (a)	Recipient to carry out & publicly disclose an assessment of compliance of ETT's operation of the East Tsankhi mine with Bank standards or similar standards acceptable to the Association practices for environmental & social safeguards and recommendations on update to the EMS	31-May-2014	Not complied with	<input type="checkbox"/>		New

IDA-44890	Schedule 2, Section D (b)	Recipient to prepare and publicly disclose a RPF and RAP for the East Tsankhi Mine in form and substance acceptable to the Bank	31-Mar-2014	Not complied with	<input type="checkbox"/>		New
<b>Financing</b>							
<b>Change in Loan Closing Date(s)</b>							
Explanation: An extension of the closing date will ensure completion of project activities and the higher level of achievement of its development objectives.							
Ln/Cr/TF	Status	Original Closing Date	Current Closing Date	Proposed Closing Date	Previous Closing Date(s)		
IDA-44890	Effective	31-Dec-2012	31-Dec-2013	31-Mar-2015	31-Dec-2012		
IDA-H4110	Effective	31-Dec-2012	31-Dec-2013	31-Mar-2015	31-Dec-2012		
<b>Reallocations</b>							
Explanation: To simplify administrative arrangements, two new "catch-all" categories are proposed to be created (one for the credit-financed components and one for the grant-financed components) to replace the old four categories. The old categories will close with balances as of the date of the approval of restructuring, while the balances left will be reallocated to the new categories. This will simplify administration for the PIU.							
Ln/Cr/TF	Currency	Current Category of Expenditure	Allocation		Disbursement % (Type Total)		
			Current	Proposed	Current	Proposed	
IDA-44890	XDR	PTs.1,2 &4, CS,TR & WS	1,930,000.00	<b>1,039,545.00</b>	100.00	100.00	
		PT3, CS,TR & WS	860,000.00	<b>426,070.00</b>	100.00	100.00	
		DISB - GOODS	270,000.00	<b>226,610.00</b>	100.00	100.00	
		DISB - OPERATING COSTS	90,000.00	<b>51,573.00</b>	100.00	100.00	
		Designated Account	0.00	0.00	0.00	0.00	
		General	0.00	<b>1,406,202.00</b>	0.00	<b>100.00</b>	
		<b>Total:</b>	3,150,000.00	3,150,000.00			
IDA-H4110	XDR	PTs.1,2 &4, CS,TR & WS	2,470,000.00	<b>1,742,815.00</b>	100.00	100.00	
		DISB - OPERATING COSTS	100,000.00	<b>81,920.00</b>	100.00	100.00	
		Designated Account	0.00	0.00	0.00	0.00	
		General	0.00	<b>745,265.00</b>	0.00	<b>100.00</b>	
				<b>Total:</b>	2,570,000.00	2,570,000.00	
<b>Disbursement Estimates</b>							
<b>Change in Disbursement Estimates</b>							

Explanation:

As of November 26, 2013, approximately US \$6.52 million out of US \$8.7 million was disbursed, with a disbursement rate of approximately 75%. It is anticipated that the project will fully disburse all remaining funds by the end of calendar year 2014. It is noted that due to foreign exchange fluctuations the USD equivalent of the combined credit and grant reduced from \$9.3 million at Board approval to \$8.7 million by November 2013. To reflect the current situation, the Client Connection data is being used for the purpose of this Restructuring Paper.

<b>Fiscal Year</b>	<b>Current (USD)</b>	<b>Proposed (USD)</b>
2009	1,300,000.00	0.00
2010	2,500,000.00	1,878,335.02
2011	3,000,000.00	1,651,946.45
2012	2,500,000.00	1,273,666.70
2013		1,431,028.73
2014		1,465,023.10
2015		1,000,000.02
<b>Total</b>	<b>9,300,000.00</b>	<b>8,700,000.00</b>

**Components**

**Change to Components and Cost**

Explanation:

Project Components. The Project consists of four components: (a) Strengthening the Capacity to Manage Mining Revenues and Develop Economic and Sector Policies, (b) Improving Regulatory Capacity to Manage Mining Sector Development, (c) Developing the Capacity for Management of State Equity, and (d) Project Management. Project component design in essence remains the same with one update:

Drop of Artisanal and Small Scale Mining Sub-component 2(e). This update recommendation originates with the Mid-term Review of 2011. The project initially included a sub-component to support artisanal and small-scale mining sector reform, which was later taken on by the dedicated Sustainable Artisanal Mining Project, funded by the Swiss Development Corporation and implemented by the Ministry of Mining. The MSISTAP Project Steering Committee decided that this work was best undertaken solely by the dedicated project, and that it was best to avoid duplication. That decision was accepted by the World Bank during the Mid-Term Review. As such, the Financing Agreement for MSISTAP will be amended to formally drop the ASM sub-component.

<b>Current Component Name</b>	<b>Proposed Component Name</b>	<b>Current Cost (US\$M)</b>	<b>Proposed Cost (US\$M)</b>	<b>Action</b>
Strengthening capacity to manage mining revenues		4.10	4.10	No Change
Improving regulatory capacity to manage mining sector development		3.00	3.00	No Change
Development of capacity to manage State Equity		1.40	1.40	No Change
Project Management		0.80	0.80	No Change
	<b>Total:</b>	<b>9.30</b>	<b>9.30</b>	

<b>Other Change(s)</b>
<p><b>Change in Procurement</b></p> <p>Explanation:</p> <p>The project followed old guidelines and old thresholds for procurement prior-review as per the original Financing Agreement. In view of the update of the procurement thresholds and procedures for Mongolia portfolio in 2012, the Paragraph D of Section III of Schedule 2 of the Financing Agreement shall be deleted completely and replaced with the following:</p> <p>“D. Review by the Association of Procurement Decisions</p> <p>The Procurement Plan shall set forth those contracts which shall be subject to the World Bank’s prior review. All other contracts shall be subject to post review.”</p> <p>22. Appendix: Definitions of the Financing Agreement shall be amended as follows:</p> <p>Paragraph 1 shall be replaced with the following:  “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006, and revised in January 2011.</p> <p>Paragraph 3 shall be replaced with the following:  “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits &amp; Grants by World Bank Borrowers,” published by the Bank in January 2011.</p> <p>Paragraph 16 shall be replaced with the following:  “Procurement Guidelines” means the “Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits &amp; Grants by World Bank Borrowers” published by the Bank in January 2011.</p>
<b>Change(s) in Appraisal Summary</b>
<p><b>Appraisal Summary Change in Social Analysis</b></p> <p>Explanation:</p> <p>OP/BP 4.12 (Involuntary Resettlement) was not triggered at appraisal, but at the time of this restructuring the project recommends to trigger this safeguard. This is triggered due to the pre-feasibility study for East Tsankhi where relocations of two winter shelters took place in 2010 and more resettlements may be taking place as ETT project expands (not related to MSISTAP or East Tsankhi study). As part of MSISTAP restructuring, the Recipient committed to an Action Plan which will help to ensure follow up and compliance with the World Bank requirements of the possible effects of pre-feasibility study carried out for ETT, including on the social side preparation of a Resettlement Policy Framework (RPF) and Resettlement Action Plan (RAP) for ETT (funded through MSISTAP).</p>
<p><b>Appraisal Summary Change in Environmental Analysis</b></p> <p>Explanation:</p> <p>OP/BP 4.01 (Environmental Assessment) and Category B (partial assessment) classification assigned at appraisal remain relevant for both the earlier envisaged technical advice to improve enabling environment for future investments in the mining sector, as well as for additional safeguards work to be completed in view of the East Tsankhi study. Under the Action Plan, which will help to ensure follow up and compliance with the World Bank requirements of the possible effects of the pre-feasibility study carried out for ETT, on the environmental side, the client will carry out a cumulative impact assessment for ETT</p>

(to be funded under the Mining Infrastructure Investment Support (MINIS) project), and (ii) update ETT's environmental and social management system (funded through MSISTAP).

**Appraisal Summary Change in Risk Analysis**

Explanation:

The initial project appraisal rated the project's overall risk as Substantial. This project restructuring does not create any additional risks beyond those identified in the initial appraisal. Several of these risks still remain relevant, as do the appropriate strategies for mitigation. The removal of Erdenes MGL from the PDO reduces the project's risk profile to some extent, as risks associated with Erdenes MGL were rated as High in the initial appraisal. The risks associated with Erdenes Tavan Talgoi are largely reputational. With review of the case completed and an action plan in place, MSISTAP has a reasonably manageable strategy to mitigate this risk. While financing from MINIS was agreed at the project level, there is a risk of delays or disagreements between the projects' Steering Committee on this activity support. Since there is a commitment on both the Bank and the client side to implement this activity, however, the financing gap risk is small. The overall Substantial risk rating remains appropriate for the Project.



**ANNEX 1:  
Results Framework and Monitoring**

<b>Revisions to the Results Framework</b>		<b>Comments/ Rationale for Change</b>
<b>PDO</b>		
<i>Current</i>	<i>Proposed (if any)</i>	
To establish key pieces of the policy, fiscal, legal, regulatory and institutional framework for the mining and extractive sector that meet needs of the public sector, industry, and civil society, including the operation of Erdenes MGL LLC according to international standards associated with commercial entities.	To establish key pieces of the policy, fiscal, legal, regulatory and institutional framework for the mining and extractive sector that meet needs of the public sector, industry, and civil society.	Achievement of the second part of the PDO is highly unlikely and beyond the scope of the project. There are priority steps that need to be completed by the Government including updates of Erdenes MGL mandate and processes which will be supported during the remaining phase of the Project.
<b>PDO Indicators</b>		
Annual budget decisions to replenish or withdraw from the newly established Sovereign Wealth Fund are made based on agreed macro-economic criteria.	The Fiscal Stability fund is implemented in line with the Fiscal Stability Law with appropriate guidelines, procedures and organizational support.	Criteria for the operation of the SWF are established by the Fiscal Stability Law, so this is suitably referenced in the modified PDO indicator. The existing Fiscal Stability Fund framework was established independent of MSISTAP, largely driven by the IMF's response to the 08-09 financial crisis. MSISTAP has since worked to provide advice on improving the structure of the sovereign wealth fund.
Level of mining related transfers from national government to Aimag and Soum authorities is known and publicly disclosed.	No change	This target remains relevant but challenging. Dialogue on revenue management is active but with a lot to go.
Mining pilot tax audits are completed and assessments raised.	No change.	
Clear authority and responsibilities for Government mining sector management institutions, especially regarding environmental and social aspects associated with mining activities.	No change.	This target remains relevant but challenging to achieve, largely due to political economy dimensions rather than technical or capacity related constraints. Functional management review of MoM and SESA are expected to be completed to provide set of recommendations to clarify and improve authorities and responsibilities but implementation of these recommendations will likely take place only after MSISTAP completion. The project will assess the level of success and sustainability of this part of the assistance at closure.

<i>Current</i>	<i>Proposed (if any)</i>	
Mineral licensing procedures streamlined and processing times reduced.	Cadastré system in place and publicly accessible at the MRAM.	The government's moratorium on issuing licenses has created a significant challenge in this area. The ongoing review of the Minerals Law (2006) has also resulted in uncertainty MSISTAP has funded work to develop a cadastré system, including hardware and software. While the system is ready, its final release is delayed. This component is fundamental to the success of the sector and as such will be retained as an indicator.
Geological information is digitized and published and readily available in user friendly digital formats.	No change.	This indicator will be challenging to complete given restriction on the geodata disclosure by Security Council. But given the relevance of this activity for mineral sector, MSISTAP will remain to support this part of the project.
Establishment of good practice internal management systems and standard operating procedures for state equity holding company Erdenes MGL	Remove and replace with a new indicator added to the intermediate indicators.	Due to political economy and the complexity of the issue of state ownership of mineral assets, the project has limited control over such decisions. As such, the indicator is revised to reflect what the project has influenced and was able to achieve. A new indicator is added to the intermediate indicators (see intermediate indicators section below).
Companies and civil society express satisfaction (through surveys) that pieces of legislation and regulation reflect their concerns and needs as per the outcomes of the participatory process. (p. 49 of the PDA – not included in MTR).	Companies and civil society participate in consultation for pieces of legislation and regulation for mining sector through public fora arranged by the government.	The original indicator did not have a baseline in PAD and was not tracked as well as unclear. This indicator will be (a) replaced by a measurable indicator of participatory consultation process for policy, legal and regulatory acts in mining sector and (b) an additional intermediate indicator is being inserted to reflect the consultation and engagement process undertaken as part of the SESA which partially will respond to the issue of raising awareness and facilitating participatory processes.

<b>Intermediate Results indicators</b>		
<i>Component 1</i>		
<i>Current</i>	<i>Proposed change (if any)</i>	
Sovereign Wealth Fund or alternative mineral revenue stabilization mechanism established.	No change.	This part of the project is also receiving parallel support from other WB and ADB projects.
Preparation and adoption of good practice draft Model Mining Investment Agreements.	Preparation of draft model Stabilization Agreement or equivalent for mining and draft model Production Sharing Agreement or equivalent for petroleum.	MSISTAP funded the drafting of a model agreement which was provided to Erdenes MGL. The agreement was used for Erdenes TT but no single standardized agreement has yet been adopted. The highly contentious nature of such agreements and the ongoing debate over this area makes it impractical for a draft agreement to be widely accepted before the new law is in place and new regulations. It's not yet fully agreed if a single agreement will serve as a basis for discussions, given the wide range of mineral resources and sites under consideration and political economy in Mongolia. MSISTAP will be funding work in 2013 to develop model stabilization agreements for MoF, reflecting a focus on long term tax/regulation stabilization.
Preparation, adoption and publication of a good practice policy statement on State equity participation in the mining sector.	Remove.	This work is outside the project's remit however it is being supported in part under a separate activity by the World Bank – advice to Ministry of Mines on preparation of the Mineral Policy. Draft mineral policy is submitted for consultation in June 2013 but it is outside of MSISTAP scope.
	Ministry of Mining policies reviewed and revised, such as industrial development, coal, unconventional oil and gas, iron ore, and communications.	MSISTAP has previously funded extensive work on a strategy to support industry development in country, including refining/value add operations. In the coming year MSISTAP also plans to fund contracts providing policy advice on coal and other minerals.
Establishment of an independent, local policy “Think Tank” which disseminates professional quality mining sector economic and policy reports.	Support establishment of mechanisms for preparation and dissemination of independent professional mining sector economic and policy reports.	The creation of a Think Tank activity has been replaced by supporting existing non-governmental organizations by providing funding for specific pieces of work/policy analysis. The change was largely driven by the complexity, cost and long term nature of establishing a new specific think tank.
Income tax laws on mining amended and supporting regulations drafted, enacted, and implementation started.	Income tax laws on mining amended and supporting regulations drafted.	

<i>Current</i>	<i>Proposed change (if any)</i>	
GDNT tax audit staff trained and competent to carry out mining company tax audits.	No change.	The tax office continues to receive support from MSISTAP, and is progressing towards the ability to undertake audits.
Options study prepared based on review of Double Taxation Treaties	No change.	
<i>Component 2</i>		
Modern company reporting requirements regulations are prepared, promulgated, implemented, and monitored	No change.	This target is unlikely to be fully achieved and the project will assess the level of success at closure.
Modern mining cadastre regulations are prepared, promulgated, implemented and monitored.	No change.	This target is unlikely to be fully achieved and the project will assess the level of success at closure.
Modern occupation, health and safety regulations are prepared, promulgated, implemented and monitored.	Modern occupation, health and safety regulations prepared and promulgated.	Impacted by the ongoing review of the Minerals Law (2006). MSISTAP is currently organizing for a contractor to provide advice on this area, but it's unlikely that there is time remaining in the project (assuming that the Mineral Law is finalized by mid-2013) for regulations to be fully implemented and monitored.
Socio-economic Impact assessment and social mitigation provisions including resettlement and compensation regulations are prepared, promulgated, implemented and monitored.	A strategic environmental and social assessment (SESA) undertaken, areas for improvement in social (including gender aspects) and environmental regulation are identified and recommendations made for updating laws and regulations.	Impacted by the ongoing review of the Minerals Law (2006). MSISTAP is funding a SESA to examine areas for reform in legislation/regulation.
	Consultation with a range of stakeholders including civil society, community members and the private sector undertaken as part of a social and environmental strategic assessment process.	The original indicator model included a PDO indicator on company/civil society satisfaction (see above). The restated PDO level indicator will focus on general consultative approach to legislative and regulatory matters. The intermediate indicator will reflect the SESA process.

<i>Current</i>	<i>Proposed change (if any)</i>	
Modern mine closure and post closure regulations are prepared, promulgated, implemented and monitored.	Modern mine closure and post closure regulations are prepared and promulgated	Impacted by the ongoing review of the Minerals Law (2006). MSISTAP funded advice in this area, which was provided to the Ministry of Mining. Responsibility for this area subsequently moved to the Ministry of Environment and Green Development (following the 2012 change of government). There is a strong interest in MEGD and MSISTAP will support this work going forward.
Increased number of outreach and education programs for artisanal and small scale miners on technology, safety, and environmental issues.	Remove.	The Project Steering Committee determined early in the project's life that this area would be addressed by another project (funded by Swiss Development Agency). This was formally confirmed by the World Bank during the project Mid-Term Review. Corresponding sub-component is being dropped from the project.
<i>Component 3</i>		
	Erdenes MGL financial reports are provided quarterly to the Board of Directors.	Added to balance the removal of an Erdenes MGL indicator from the PDO indicators. Due to political economy and complexity of the issue of state ownership of mineral assets, the project has no control over decisions about corporate structures/systems. As such, the indicator is revised to reflect what the project has influenced and was able to achieve.
Establishment of appropriate legal structure and preparation and adoption of suitable corporate charter and reporting arrangements for Erdenes MGL.	No change.	This target was in part met during establishment of Erdenes MGL in the beginning of the project. However the company's charter and mandate are being expanded and require an update as of 2013. The project will support this update and will assess level of success at closure – taking into account the early success.
Provision of management-related and governance related training events to build capabilities needed within Erdenes MGL.	No change.	

## REVISED PROJECT RESULTS FRAMEWORK

Project Development Objective (PDO): To establish key pieces of the policy, fiscal, legal, regulatory and institutional framework for the mining and extractive sector that meet needs of the public sector, industry, and civil society.										
PDO Level Results Indicators	Core	D=Dropped, C= Continue, N=New,	Unit of Measure	Baseline Original Project Start (2009)	Progress to Date (2012)	Cumulative Target Values		Frequency	Data Source/ Methodology	Responsibility for Data Collection
						2013	2014			
The Fiscal Stability Fund is implemented in line with the Fiscal Stability Law with appropriate guidelines, procedures and organizational support	<input type="checkbox"/>	R	Yes/No	Human Development Fund established but deficient without defines operating criteria	The Fiscal Stability Law will come into force (2013), regulating deposits into and withdrawals from the Fiscal Stability Fund. Work is ongoing to refine the Sovereign Wealth Fund framework, including improving the existing regulations and structure	Fiscal Stability Law operation, enforced.	Supporting organization established for the Fiscal Stability Fund, including guidelines and procedures.	Annual.	Annual report.	MoF/PIU
Level of mining related transfers from national government to Aimag and Soum authorities is known and publicly disclosed.	<input type="checkbox"/>	C	Yes/No	Not disclosed.	The Integrated Budget Law of December 2011 addresses financial flows to and uses of funds at sub-national level. Since 2010 Mongolia is compliant with EITI and the reporting template includes disclosure of mineral revenue transfers to sub-national governments.	Share of total revenues of Aimag and Soum governments, including those from mining-related sources, published regularly.	Breakdown of Aimag and Soum budgets by functional and economic classifications published regularly.	Mid-term and end of project reviews.	Survey.	MoF/PIU
Mining pilot tax audits are completed and assessments raised	<input type="checkbox"/>	C	Yes/No	No tax audits completed.	MSISTAP has provided support to develop a mineral tax audit unit the Mongolian Tax Authority, and training has been provided.	Training in mining tax auditing and audits commences.	2 audits completed.	Mid-Term and end of project reviews.	Review.	MoF/PIU

PDO Level Results Indicators	Core	D=Dropped, C=Continue, N=New,	Unit of Measure	Baseline Original Project Start (2009)	Progress to Date (2012)	Cumulative Target Values		Frequency	Data Source/ Methodology	Responsibility for Data Collection
						2013	2014			
<b>Intermediate Results and Indicators</b>										
Clear authority and responsibilities for Government mining sector management institutions, especially regarding environmental and social aspects associated with mining activities.	<input type="checkbox"/>	C	Yes/No	Roles confused, resulting in gaps and conflict.	A combination of factors means that authority and responsibility for mining sector regulation is still relatively unclear. The change of government has resulted in significant restructuring. Policies continue to be developed, including the ongoing review of the Minerals Law (2006).	Complete Functional Management Review of Ministry of Mines	Action Plan to implement recommendation of Functional Management Review is adopted	Mid Term and end of project reviews.	Review.	PIU
Cadastre system in place and publicly accessible at the MRAM.	<input type="checkbox"/>	R	Yes/No	No cadastre system in place.	Pilot work has been undertaken to develop systems, and hardware for a cadastre server is currently underway.	Hardware, cadastre system in place at the Ministry of Mining.	System operational, used for licensing mining operations.	Annual.	Annual report.	MoM/PIU
Geological information is digitized and published and readily available in user friendly digital formats.	<input type="checkbox"/>	C	Yes/No	Very limited data availability.	The Mineral Authority of Mongolia is currently exploring options to digitize geodata and integrate it with mining cadastre.	100,000 data points.	200,000 data points.	Annual.	Annual report.	MoM/PIU
Establishment of good practice internal management systems and standard operating procedures for state equity holding company Erdenes MGL	<input type="checkbox"/>	D	Yes/No	No formal procedures.	MSISTAP has provided support on establishing corporate policies for Erdenes MGL.	NA	NA	NA	NA	NA

PDO Level Results Indicators	Core	D=Dropped, C=Continue, N=New,	Unit of Measure	Baseline Original Project Start (2009)	Progress to Date (2012)	Cumulative Target Values		Frequency	Data Source/ Methodology	Responsibility for Data Collection
						2013	2014			
Companies and civil society participate in consultation for pieces of policy, legislation and regulation for mining sector thru public for an arranged by the government.	<input type="checkbox"/>	R	Yes/No	No data available.	No comprehensive surveying has been undertaken. MSISTAP has funded consultation with key stakeholders over new legislation	Consultations taking place for policy, each piece of legislation and regulation	Consultations taking place for policy, each piece of legislation and regulation	Annual	Annual report	MoM/ PIU
<i>Component 1</i>										
<i>Objective: Strengthening the capacity to manage mining sector revenue and develop economic and sector policies</i>										
Sovereign Wealth Fund or alternative mineral revenue stabilization mechanism established.	<input type="checkbox"/>	C	Yes/No	Human Development Fund established but deficient without defined operating criteria.	MSISTAP has funded an international expert to review the sovereign wealth fund framework and provide recommendations. A workshop was held with key Parliamentary figures in attendance to build high level consensus. Additional support was provided under Multi-sectoral TA Project (also under WB support)	Work funded to prepare the legal framework for the Sovereign Wealth Fund.	Fund operational, systems in place.	Annual	Annual report	MoF/ PIU
Preparation of draft model Stabilization Agreement or equivalent for mining and draft model Production Sharing Agreement or equivalent for petroleum.	<input type="checkbox"/>	R	Yes/No	First draft prepared.	Translation into Mongolian of the <i>Model Mining Development Agreement</i> , prepared by the International Bar Association. Prepared contracts for individual deposits for Erdenes MGL.	Work undertaken to review and provide advice on investment stabilization agreements.	Advice provided to government. Implementation initiated for the recommendations which are accepted.	End of project	Meeting with stakeholders.	PIU



PDO Level Results Indicators	Core	D=Dropped, C=Continue, N=New,	Unit of Measure	Baseline Original Project Start (2009)	Progress to Date (2012)	Cumulative Target Values		Frequency	Data Source/ Methodology	Responsibility for Data Collection
						2013	2014			
Preparation, adoption and publication of a good practice policy statement on State equity participation in the mining sector.	<input type="checkbox"/>	D	Yes/No	Work started	Work has not progressed on this item, reflecting the ongoing debate at a Parliamentary level on the Government's involvement in the mining sector. This in part is being addressed under another operation by the World Bank (support for mineral policy drafting).	NA	NA	NA	NA	NA
Ministry of Mining policies reviewed and revised (such as industrial development, coal, unconventional oil and gas, iron ore, and communications)	<input type="checkbox"/>	N	Yes/No	-	Some work has been undertaken to review the Ministry's strategic communications plan. MSISTAP has also funded advice on how to best develop the mining industry, including opportunities for downstream processing in Mongolia.	Policy advice provided on iron ore, fluorite, coal, and the Ministry's strategic communications plan.	Government adopts recommendations in the form of policy statements.	Annual	PIU to meet with key personnel in the Ministry of Mining to assess progress.	MoM/ PIU
Support establishment of mechanisms for preparation and dissemination of independent professional mining sector economic and policy reports.	<input type="checkbox"/>	R	Yes/No	None.	Discussions were taking place on appropriate structure. ToRs for the format of mechanism were prepared and agreed by the Project Steering Committee	Complete selection of the existing institution to provide this support	Produce first report	Annual	PIU to report on progress	MoM/ PIU

PDO Level Results Indicators	Core	D=Dropped, C=Continue, N=New,	Unit of Measure	Baseline Original Project Start (2009)	Progress to Date (2012)	Cumulative Target Values		Frequency	Data Source/ Methodology	Responsibility for Data Collection
						2013	2014			
Income tax laws on mining amended and supporting regulations drafted.	<input type="checkbox"/>	R	Yes/No	Income tax law for mining deficient.	MSISTAP has funded several consultants to provide support to the Mongolian Tax Authority and the Ministry of Finance in developing tax policy and regulation.		Final modifications to tax laws submitted to Parliament for consideration.	Annual.	PIU to meet with key personnel in the Ministry of Finance to assess progress.	MTA/PIU
GDNT tax audit staff trained and competent to carry out mining company tax audits.	<input type="checkbox"/>	C	Number	No staff trained to international standards.	MSISTAP has funded extensive training for a number of MTA officials.	8 staff trained and 2 staff led tax audits.	10 staff trained and 2 staff led tax audits.	Annual	Progress report.	MTA/PIU
Options study prepared based on review of Double Taxation Treaties	<input type="checkbox"/>	C	Yes/No	Treaties exist but Government dissatisfied with options.	MSISTAP has funded contractors to provide advice on double taxation treaties since 2011. That work is ongoing, but has already resulted in the removal of those treaties perceived to be the most disadvantageous to Mongolia.	Options study prepared.	Work completed on double taxation treaties – Government satisfied with current position on double taxation treaties.	Annual.	MSISTAP PIU to meet with key personnel in the Ministry of Finance to assess progress.	PIU
<i>Component 2</i>										
<i>Objective: Improving regulatory capacity to manage mining sector development</i>										
Modern company reporting requirements regulations are prepared, promulgated, implemented, and monitored	<input type="checkbox"/>	C	Yes/No	None.	Work has been delayed by the delay in finalizing the major piece of mining legislation ( <i>Minerals Law 2006</i> ).		Regulations issued, enforced.	Annual.	PIU to meet with key personnel in the Ministry of Mining to assess progress.	PIU

PDO Level Results Indicators	Core	D=Dropped, C=Continue, N=New,	Unit of Measure	Baseline Original Project Start (2009)	Progress to Date (2012)	Cumulative Target Values		Frequency	Data Source/ Methodology	Responsibility for Data Collection
						2013	2014			
Modern mining cadastre regulations are prepared, promulgated, implemented and monitored.	<input type="checkbox"/>	C	Yes/No	Regulations under preparation.	MSISTAP has funded work to develop cadastre regulations, and is currently funding a major piece of work to implement a server at the Mineral Resources Authority of Mongolia. But overall – the regulations will be pending the new Mineral Law be in place	Cadastre hardware installed at the Mineral Resources Authority of Mongolia	Cadastre system operational, used for public tendering for mineral licenses.	Annual.	PIU to meet with key personnel in the Mineral Resources Authority of Mongolia to assess progress.	PIU
Modern occupation, health and safety regulations prepared and promulgated.	<input type="checkbox"/>	R	Yes/No	None.	Work not yet started. ToRs are in draft, reviewed by the Bank and are under revision	Work undertaken to develop the legislative framework and regulation for mining sector occupation health and safety.	Legislation passed, authorities actively monitoring health and safety practices based on new regulations.	Annual.	PIU to meet with key personnel in the Ministry of Mining to assess progress.	PIU
A strategic environmental and social assessment (SESA) undertaken, areas for improvement in social and environmental regulation are identified and recommendations made for updating laws and regulations.	<input type="checkbox"/>	R	Yes/No	No systematic review of legislation governing environmental/ social impacts undertaken.	ToRs prepared and discussed in the open consultation in October 2012. Procurement of consultants' services at the RfP stage. Work expected to commence mid- 2013 subject to extension of MSISTAP	Social and Environmental Strategic Assessment (SESA) underway.	Results presented, Government responding to key findings.	Annual.	MSISTAP monitoring SESA progress.	PIU

PDO Level Results Indicators	Core	D=Dropped, C=Continue, N=New,	Unit of Measure	Baseline Original Project Start (2009)	Progress to Date (2012)	Cumulative Target Values		Frequency	Data Source/ Methodology	Responsibility for Data Collection
						2013	2014			
Consultation with a range of stakeholders including civil society, community members and the private sector undertaken as part of a social and environmental strategic assessment process	<input type="checkbox"/>	N	Yes/No	A range of stakeholders dissatisfied with engagement mechanism, government approaches to consultation.	First consultations for SESA scope completed.	SESA underway.	SESA Consultation process completed. Working local engagement tools (models) evolved	Annual.	MSISTAP monitoring SESA progress.	PIU
Modern mine closure and post closure regulations are prepared, and promulgated.	<input type="checkbox"/>	R	Yes/No	None.	MSISTAP has previously funded work to advise the Ministry on mine closure regulations. Currently a number of different models are being considered by the Ministry.	Advice on mine closure regulations prepared.	Mine closure regulations prepared, finalized.	Annual.	PIU to meet with MoM and Ministry of Environment and Green Growth to assess progress.	PIU
Increased number of outreach and education programs for artisanal and small scale miners on technology, safety, and environmental issues.	<input type="checkbox"/>	D	Yes/No	0	This component has been dropped from MSISTAP. No ASM work was carried out due to availability of other funding	NA	NA	NA	NA	NA
<b>Component 3</b>										
<i>Objective: Developing the capacity for managing state equity</i>										
Erdenes MGL financial reports are provided quarterly to the Board of Directors.	<input type="checkbox"/>	N	Number	Corporate systems in the process of being established.	Financial reports are now provided quarterly to the Board of Directors.	4 reports (2013).	8 reports (cumulative, 2013-2014).	Annual.	PIU to meet with key personnel in Erdenes MGL to assess progress.	PIU

PDO Level Results Indicators	Core	D=Dropped, C=Continue, N=New,	Unit of Measure	Baseline Original Project Start (2009)	Progress to Date (2012)	Cumulative Target Values		Frequency	Data Source/ Methodology	Responsibility for Data Collection
						2013	2014			
Establishment of appropriate legal structure and preparation and adoption of suitable corporate charter and reporting arrangements for Erdenes MGL.	<input type="checkbox"/>	C	Yes/No	Established in 2007.	MSISTAP completed the original charter documents for Erdenes MGL and its incorporation. That charter will be revised in 2013.	Revision of charter underway.	Charter in line with good practice.	Annual.	PIU to meet with key personnel in Erdenes MGL to assess progress.	PIU
Provision of management-related and governance related training events to build capabilities needed within Erdenes MGL.	<input type="checkbox"/>	C	Number		MSISTAP has funded a wide range of training sessions and attendance at international training events for Erdenes personnel.	8 training events/ attendance at conference.	16 training events/ attendance at conferences.	Annual.	Annual Report	Erdenes MGL

**Mongolia Mining Sector Institutional Strengthening Technical Assistance Project  
(MSISTAP)  
Environmental and Social Safeguards**

1. MSISTAP is a Category B project (partial assessment) under OP 4.01. At appraisal a "safeguards note" was disclosed (in lieu of an Environmental Impact Assessment) providing a description of environmental and social issues in regard to mining. Given the technical advice under the Project, which was expected to lead to future investments in the mining sector, the MSISTAP Project has triggered safeguard policies OP 4.01 (Environmental Assessment). At the time of this restructuring, Category B remains relevant and no changes are proposed in the arrangements.
2. At the time of appraisal, OP 4.12 (Involuntary Resettlement) was not triggered as the project is a technical assistance and no people were being affected. However, at the time of this restructuring the Project recommends to trigger OP 4.12 given the deposit level study undertaken for the Erdenes Tavan Tolgoi mine in South Gobi (see para. 4 of this Annex). Consideration was given to triggering OP4.10 (Indigenous People), but the only geographic area that was specifically affected by MSISTAP (the South Gobi area of Tavan Tolgoi coal field) has no indigenous people present according to interviews with the stakeholders. While there are indigenous peoples in other areas of Mongolia, MSISTAP did not (and will not) undertake any specific work in these geographic locations. As such, OP4.10 does not apply to this project.
3. At the project appraisal, no specific mineral deposit level work was envisaged and no mechanism was created for management of environmental and social risks that might have resulted from studies and assessments, which in hind-sight was a deficiency of the original design. To ensure the project's consistency with the World Bank's requirements, in particular in view of the support provided for the feasibility study for the East Tsankhi mine, the project team reviewed compliance with safeguards as part of its due diligence for this project restructuring.
4. **Baseline as of September 2013:** The project has undertaken a limited number of deposit level technical expert assessments which were largely advice on geological, legal, economic, and financial aspects - these activities in scope were consistent with the legal arrangements for MSISTAP and had no direct effect on the environment. The one assignment that went deeper was a feasibility study undertaken in 2010 for the Eastern Tsankhi Coalfield<sup>1</sup> – a project of Erdenes Tavan Tolgoi (ETT), a state-owned mining company under the Erdenes MGL holding company, which continues to be in operation. The feasibility study assessed the geological potential of the coalfield and technical issues to start up the operation of a 15 million ton per annum 30 year mine-life mine; the study was also in part intended to define targets for the planned (at that time) initial public offering for ETT. With hindsight, safeguard policies should have been applied to the study. It is noted that the study qualifies rather as pre-feasibility and it clearly recommends ETT to proceed with an EIA as soon as possible as well as carry out public consultation, in particular to understand impact on herders, and assess in detail impacts on water. After the study was completed, the ETT completed the Environmental Impact Assessment (EIA)

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<sup>1</sup> It is noted by the project team, that since ETT is a state run mine and was not looking for project funding at that time, the intention and scope of this study was rather that of a "pre-feasibility". The report does not in substance qualify for a bankable feasibility study, however, it was labeled by the consultant as a "feasibility study".

in accordance with Mongolian law and the former Ministry of Environment and Tourism<sup>2</sup> formally approved the EIA Report for East Tsankhi in 2011.

5. **Environmental Safeguards Review of East Tsankhi Mine (May 2013).** To review that MSISTAP-generated information at the ETT site was adequate from a safeguards point of view (even if post-factum in the absence of a clear mechanism at the time the work had been undertaken in 2010), an environmental safeguards mission took place in May 2013. The mission visited Ulaanbaatar and the mine site in the South Gobi region and met with the Ministry of Environment and Green Development, and mine management and local staff. Based on the review of documentation and interviews, the mission concluded that while the general legal requirements for EIAs in Mongolia were followed, there were a number of shortcomings that need to be addressed including: (i) lack of assessment of the critical cumulative impacts related to the development of coal resources in the sub-region; (ii) lack of information on disclosure and consultation and; and (iii) limited capacity within ETT (and local level) to manage environmental and social risks of mine development.

6. Based on the assessment, environmental Category B remains an appropriate rating for the project, and MSISTAP supervision will include regular updates on the Action Plan.

7. **Social Safeguards Review of East Tsankhi (September 2013).** A social review was conducted in relation to the study financed by MSISTAP on the Erdenes Tavan Talgoi (ETT) East Tsankhi. The mission met with staff from the Ministry of Mines, the Ministry of Labor, the Ministry of Environment and Green Development, the Omnugovi Aimag, and the Tsogtsetsii Soum, and with field and head office based staff of ETT. The mission visited the site of both East and West Tsankhi mines and interviewed the ETT community officer and two affected households. In general, the review noted that Mongolian standards and practices on resettlement and land acquisition are not in compliance with international standards, including those of the World Bank. There are no standard documents, procedures or guidance on these matters, and the investors and local population are left to negotiate between themselves. There is no involvement from the soum authorities apart from assigning new land for the resettled party.

8. **Indigenous Population.** The mission concluded that no indigenous people group was found in the project soum. There is no further action required.

9. **Involuntary Resettlements.** Following the example of more recent Bank-financed projects supporting mining sector governance reforms, the sensitivity of the mineral sector in general and the work supported earlier for the Erdenes Tavan Tolgoi project, the restructured MSISTAP will trigger OP 4.12. A report will be prepared on the resettlements' process, including the consultations and compensation process, followed in the Eastern Tsankhi Coalfield and any actions to be taken on board by ETT going forward. A Resettlement Policy Framework (RPF) and Resettlement Action Plan (RAP) for East Tsankhi mine will be developed by ETT with assistance from consultants and in consultation with the Bank and Erdenes MGL.

10. The review identified that the resettlement in East Tsankhi was generally implemented following domestic laws and regulations, but the procedures were below Bank safeguard standards; the lack of a paper trail in the company in regards to compensation is noted. It is acknowledged that ETT was able to produce a list of affected businesses, people and winter shelters for cattle and had clear coordinates for each party on the property. The two winter shelters that were removed prior to mine construction in 2010 resulted in compensation to the

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<sup>2</sup> Ministry of Environment and Tourism was superseded by Ministry of Environment and Greed Development (MoGD) after 2012

(two) owners based on oral agreements, however, no records of these agreements were found; lack of documentation appears to be a systemic issue with the soum government and local companies, and most agreements still appear to be oral. As the mine develops, ETT will need to remove several more winter shelters as well as some of the registered and unregistered business entities on their license area. This will be done gradually as the mine grows. With this, it will be required for ETT to develop an RPF and RAP and have it agreed with the Bank. Based on discussions with the CEOs of both Erdenes MGL (the holding company) and Erdenes TT (the project company operating East Tsankhi), there is a full commitment to follow the World Bank recommendations to improve social safeguards management.

11. In consultation with the Erdenes MGL and Erdenes TT, the Project prepared an Action Plan to ensure follow up and compliance of the ETT part of the project with World Bank requirements, which is provided in Table 1 below. The Recipient is committed to implement the Action Plan in close collaboration with the Bank.

12. The Restructured project will ensure that adequate resources will be provided to implement the activities set forth in the Environment and Social Safeguard Action Plan. The resources needed to implement the activities of the Action Plan will be determined more precisely and confirmed during the implementation of the restructuring based upon the ToRs to be developed in line with achieving the objectives of the Action Plan, with the amount provided in the Table 1 below being indicative.



**Table 1. Environmental and Social Safeguards Action Plan**

<b>Recommendation</b>	<b>Agreed Action</b>	<b>By when</b>	<b>By whom</b>	<b>Cost and financing source</b>
1. Undertake a cumulative impact assessment of coal mine projects on groundwater and impacts associated facilities (e.g. coal transportation) on biodiversity and on the livelihood of local communities and herders in the region.	MINIS will finance a cumulative impact assessment study for the area under ToRs to be agreed with the Bank.	by November 2014	MINIS Project.  MoEGD will lead with support from Erdenes MGL and ETT. The study will be publicly disclosed by ETT/EMGL	\$200,000 - MINIS
2. Update ETT's environmental management system.	MSISTAP will finance consultancy services to review 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 procedures. ETT's management will adopt the recommendations.	by May 2014	This activity will be managed by Erdenes MGL as project beneficiary under relevant component. MoEGD will ensure that the recommendations are compliant with the government's requirements	\$60,000 – MSISTAP
3. Prepare RAP and RPF for the resettlement and land acquisition in East Tsankhi.	RPF and RAP will be prepared under EMGL's component and will be subject to review and approval by the Bank and will be publicly disclosed and consulted on.	by March 2014	EMGL/ETT  Monitoring will be a part of MSISTAP supervision under Bank Budget. Implementation will be responsibility of ETT and this activity will go beyond MSISTAP implementation	\$60,000 - MSISTAP
<b>Total Cost</b>				<b>MSISTAP - \$120,000</b>  <b>MINIS - \$200,000</b>