PE05-308S

Special Study

Mongolia Cooperation Fund

(Mongolia)

A Mid-Term Review

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Evaluation Department

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for Reconstruction and Development

PREFACE

This report presents the findings of an evaluation of the Bank's Mongolia Cooperation Fund (MCF) by the Bank's Evaluation Department (EvD). Wolfgang Gruber, Senior Evaluation Manager, EvD, and a Consultant (hereafter referred to as "the Evaluation Team") carried out the evaluation and prepared this report. EBRD administers the programme through the Central Asia Team.

The need for an evaluation of MCF arises from the Bank's obligation to extend the same treatment to donor-financed operations as it does to the operations funded from the Bank's own resources. The Bank, thus, has an obligation to carry out independent evaluations of donor-funded operations and, beyond this obligation, it has an interest in ensuring that the donors are satisfied that the Bank is adequately assessing the relevance, efficacy, efficiency and impact of the programmes they are funding and using the evaluation results to guide future efforts.

The evaluation applies generally accepted evaluation criteria. First, it considers *relevance*, i.e., the extent to which MCF's mission is consistent with EBRD's mandate, MCF's operations are consistent with EBRD's mandate and its own mandate, and MCF's operations are addressing Mongolia's high priority transition and development needs. Second, it considers *effectiveness and transition impact*, i.e., the extent to which the outputs and outcomes of MCF's operations are fostering transition towards an open, market-oriented economy and the promotion of private and entrepreneurial initiatives in Mongolia. Third, it considers *efficiency*, i.e., the extent to which Bank staff and MCF financial resources are being used productively in achieving the intended outputs and outcomes and the extent to which the benefits justify the resources used. Fourth, it considers *sustainability*, i.e., the extent to which the companies assisted are likely to survive and maintain their operating results after MCF's assistance is withdrawn.

TABLE OF CONTENTS

LIST OF APPENDICES

ABBREVIATIONS AND DEFINED TERMS

BAS	EBRD's Business Advisory Services Programme
CAA	Mongolia's Civil Aviation Authority
CIS	Commonwealth of Independent States
CSU	EBRD's Consultant Services Unit
Evaluation Team	Wolfgang Gruber, Senior Evaluation Officer & Consultant
EvD	Evaluation Department
FSU	Former Soviet Union
GDP	Gross domestic product
IFIs	International financial institutions
MCF	Mongolia Cooperation Fund
MIAT	Mongolian Airlines
OCU	EBRD's Official Cofinancing Unit
OECD	Organisation for Economic Cooperation and Development
OL	Operation leader
OM	EBRD's Operations Manual
OPER	Operation Performance Evaluation Review
PED	Project Evaluation Department (now Evaluation Department)
SMEs	Small and Medium Enterprises
TACIS	The EU's Technical Assistance for CIS Countries programme
TAM	EBRD's TurnAround Management Programme
TC	Technical Cooperation
TCFP	EBRD's Technical Cooperation Fund Programme
TORs	Terms of reference
USAID	United States Agency for International Development

EXECUTIVE SUMMARY

The European Bank for Reconstruction and Development manages the Mongolia Cooperation Fund, a €10.3 million technical cooperation (TC) fund based on grants from Japan, the Netherlands, Luxembourg and Taiwan. Between late 2001 and the end of 2004, the MCF committed €6.3 million for eleven operations. These operations included senior advisors for 22 companies assisted through the EBRD's TurnAround Management (TAM) Programme, an expatriate management team for Mongolia's national airline (MIAT), micro-credit advisors for a major Mongolian bank (Khan Bank), training for nearly 300 bank managers and staff, training for 15 small and medium-sized enterprise (SME) owners, consultancy services for power and telecommunications privatisation, studies of legal transition issues and plans for Mongolia's civil aviation authority and for the development of petroleum refining facilities. Many of these operations had multiple components.

This mid-term review presents the findings of an evaluation of the MCF's TC activities committed through the end of 2004 (even though it may be too early to rate some operations). The evaluation team based this study on a review of EBRD and MCF documents, reports prepared by MCF consultants and others and interviews with more than 116 people. Interviewees included EBRD staff members), MCF consultants, government officials, staff members from other international financial institutions or donors, trainees or their supervisors from ten financial institutions (including the Mongolian central bank) and nine SMEs and managers from companies or financial institutions receiving direct assistance under MCF-funded operations (other than training programmes). Since the Evaluation Department had visited all of TAM's eleven active projects in Mongolia in connection with an evaluation completed in 2004, the evaluation team limited its review of TAM to drawing on the material collected earlier and on reports by TAM's independent evaluation advisor. The team prepared draft working papers on each TC operation, circulated the drafts to the operation leaders for comment and reflected their comments in revised versions of these papers. EvD has retained a set of the working papers in its files.

CONCLUSIONS

The evaluation team has rated the MCF's additionality - or ability to complement private sector finance - as *Verified* in all respects and the TC operations' relevance as largely confirmed. None of these operations would have gone ahead without the MCF or other public funding, and seven of the eleven, accounting for 86 per cent of total commitments, were fully relevant to the EBRD's and the MCF's mandates and to Mongolia's needs. Two operations and one component of a third, however, did not address high-priority needs. Another component of the latter operation addressed a high- priority need but did not follow the EBRD's and the MCF's mandates. A fourth followed the MCF's mandate, but not the EBRD's.

Overall, the TC operations funded by the MCF can be considered successful. The team rated five of the seven completed projects as *Successful*, and three of the four projects still underway were headed for success. If the team's expectations turn out to be accurate, about 75per cent of the TC projects committed, accounting for roughly the same percentage of the funding amounts committed, are likely to be successful.

Looking jointly at relevance and outcomes, however, the picture is less clear. Only six of the eleven projects were, or are likely to be, both successful and fully relevant to the EBRD's and the MCF's mandates, and to Mongolia's needs. The remaining five fell short on one or more of these measures. Still, after weighing these assessments by the amounts committed or comparing the overall benefits with the total costs, the results would undoubtedly be positive.

Overall, bank handling has been good. The team considered the EBRD's own performance to be *Good* in four of the seven completed projects and less than satisfactory in the three remaining ones. Based on performance to date, it would have assigned *Good* ratings in three of the four uncompleted projects and a less than satisfactory rating in one. In all cases where the EBRD's own performance was *Good*, the overall performance of the TC operation was *Successful* or better. In two of the three cases where the EBRD's own performance was less than satisfactory, the overall performance was less than successful. Clearly, the quality of the EBRD's work on its TC operations can make a difference.

RECOMMENDATIONS

Chapter 6 provides several recommendations emerging from this evaluation. Five deserve particular attention.

1. ***In view of the important role that TC can play in fostering transition beyond facilitating investment operations, the EBRD should ensure that its staff devotes the same attention to TC as to investments.*** The Bank's current incentive system emphasises investment volume in staff promotion and bonus allocation decisions. So long as the EBRD signals to its staff that meeting investment targets is more important than TC, its staff will tend to give lower priority to TC. In view of the linkage between the EBRD's performance and outcomes, treating TC as a lower priority is doing a disservice to both the donors and the intended beneficiaries.

2. ***The EBRD should ensure that its TC operations are consistent with its transition mandate.*** By not requiring revisions or dissociating itself from the consultants' recommendations in one operation, the MCF indirectly supported continuation of a central planning mentality and the belief that Mongolia can insulate itself from fluctuations in world market prices; that is, it supported ways of thinking inconsistent with transition. The EBRD may not always be able to control the contents of consultants' reports. But it should carefully review reports funded under its TC operations and, when it cannot impose revisions, should make clear its disagreement

with recommendations that conflict with its mandate or with sound economic policies.

Although the EBRD should certainly continue to encourage beneficiary countries to present their own ideas for TC operations, it should not neglect its responsibility to allocate scarce TC funds based on its own independent assessment of the beneficiary country's needs and the requirements of it own mandates. In a few operations, undertaken at the urging of government agencies, the economic rationale was weak or the objectives not consonant with the Bank's, or the MCF's, mandates. ***The EBRD should ensure that the funds allocated for a TC assignment are adequate to permit achievement of the operation's objectives.*** Three operations called for the consultants to do far more than possible for the amounts allocated. The first two both yielded disappointing results, and the third appears likely to yield disappointing results. The team is not suggesting that the MCF should have provided additional resources for these operations, but rather that it should have provided sufficient funding to permit achievement of the objectives, modified the objectives to bring them into line with the funds available or else not funded the operations at all. ***The EBRD should use the leverage inherent in providing grant funds to impose conditions necessary for success.*** In several cases, the MCF broke TC assignments down into stages and retained the right to decide whether to proceed, depending on the results of the initial stage(s). Similarly, the EBRD's TurnAround Management Programme retains the right to terminate an assignment if the client fails to cooperate with TAM's advisors. However, despite recognizing that the success of one operation depended heavily on the government's taking certain actions and not interfering with management, the MCF did not adequately use the leverage that comes with giving away money. The MCF could have retained the right, exercisable at any time, to cancel the grant agreement, withdraw the consultants, and even require the government to repay amounts previously disbursed if it failed to take certain actions by specified dates, or if it interfered with management. The EBRD may not be able to use the same influence provided by its power to accelerate a loan if a client fails to respect loan covenants, but its ability to stop disbursing free funds and to call for repayment of amounts previously disbursed can also provide leverage.

Chapter 6 provides several additional recommendations, dealing with consultants' terms of reference, potential conflicts of interest, improving the outcomes and limiting the costs of training programs, translation of reports, cost recovery, flexibility and collaboration with other donors.

1. INTRODUCTION

1.1 BACKGROUND

When Mongolia became a member country, the European Bank for Reconstruction and Development recognised that it could play a useful role in "fostering transition towards an open, market-oriented economy and the promotion of private and entrepreneurial initiative." Mongolia had historical links to the former Soviet Union, remained in the sphere of economic influence of Russia and faced challenges analogous to those of many EBRD countries of operations. The EBRD consequently considered that it could use its special expertise to contribute to Mongolia's transition and development.

Since Mongolia was not a country of operations, the EBRD could not use its own capital or Technical Cooperation Funds Programme (TCFP) resources. It could, however, use special-purpose donor funds for TC. Thus, in March 2001, the EBRD's Board of Directors approved a proposal for the creation of the donor-funded Mongolia Cooperation Fund (MCF).[1] Donors have pledged €10.3 million for the MCF (Japan, €5 million; the Netherlands, €3.3 million; Luxembourg, €1 million; and Taiwan, €1 million).

The MCF's mandate is consistent with the EBRD's, although it lacks some of the specifics contained in the EBRD's Establishing Agreement, such as provisions to stimulate and encourage the development of capital markets and promote environmentally sound and sustainable development (Appendix 1).

1.2 GOVERNANCE AND ADMINISTRATION

The EBRD staff meets from time to time with the Mongolian authorities and others to discuss ideas for using the MCF's resources. Bank staff meet twice yearly with a steering committee consisting of MCF donor representatives to discuss and seek approval in principle for individual TC operations. Once the steering committee has agreed to a concept, the operation leader from the EBRD's relevant sector or country team, in cooperation with the MCF administrator (see next paragraph), the Official Co-financing Unit and the Consultant Services Unit, completes its TC project preparation work and then seeks approval from the Bank's TC committee. The process for MCF TC operations is the same as the normal TC process as prescribed in the Bank's Operations Manual. After approval by the TC Committee, the MCF confirms that none of the donors objects to the operation.

[1] Mongolia became an EBRD shareholder in 2000 but is not yet a country of operations. In 2003, management proposed an amendment to the Agreement Establishing the Bank in order to admit Mongolia as a country of operations, and in January 2004, the Board of Governors approved the amendment. All members must ratify the amendment for it to take effect. EBRD staff expects the necessary ratifications to be completed in October 2006.

The EBRD administers the MCF through its Central Asia team. This team, in turn, has delegated the responsibilities to one of its senior bankers, who spends about 10 per cent of his time as the MCF administrator. The administrator can reject TC project ideas and has done so in several instances, but he cannot require sector teams to undertake operations that do not interest them. He exercises general oversight over implementation but again has little authority over the sector teams. The administrator supervises the MCF's Ulaanbaatar office, which handles liaison with government agencies, other donors and the parties involved in the TC projects.[2] The arrangements call for all costs associated with the MCF, including administrative costs, to be charged against the Fund. Chapter 5.3 comments further on governance, administration and administrative costs.

1.3 THIS STUDY

This mid-term review presents the findings of an evaluation, carried out in mid-2005, of the MCF's TC activities and its organisational structure and arrangements (including management and administration). The review applies generally accepted evaluation criteria.[3] It covers all operations committed through the end of 2004 even though it may be too soon to rate some operations.[4]

The evaluation team (see preface) based this study on a review of EBRD and MCF documents, reports prepared by MCF consultants and others, and interviews in Mongolia, Taipei, and London with more than 116 people. Those interviewed included 13 EBRD staff members (mostly the TC operation leaders concerned), 15 MCF consultants, 11 government officials, 14 staff members from other international financial institutions or donors, more than 51 trainees or their supervisors from ten financial institutions (including the central bank) and nine SMEs and 12 managers from companies or financial institutions receiving direct assistance, other than training programmes, under MCF-funded operations.[5, 6]

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2 MCF's Ulaanbaatar office is not, and does not have the status of, a Bank Resident Office. It is staffed with one person only, and its liaison services are limited.

3 The preface briefly summarizes these criteria. The EvD has the terms of reference on file.

4 The evaluation does not cover the €0.3 (million? Or some other missing word?) cost of hiring two Mongolian analysts for training at EBRD headquarters under a human resources development TC project.

5 In addition, EvD had visited all eleven active projects then being assisted in Mongolia by the TurnAround Management Programme (TAM) in connection with a study completed in 2004. (Project Evaluation Department, "Special Study: TurnAround Management Programme (TAM): Regional," April 2004, OPER No. PE03-251S.) For the present study, the Evaluation Team limited its review of TAM to drawing on the material collected earlier and reports by TAM's independent evaluation adviser.

6 One sector team thought inadequate resources had been devoted to this evaluation. Certainly, a larger budget would have permitted the evaluation team to look into some issues in greater detail. The MCF, however, was managing a fund of only €11 million and had to limit the amount of donor funds allocated to evaluation. EvD considers that spending additional money would not have changed the substance of the findings and recommendations and that the amount spent was appropriate, taking into consideration the size of the programme.

The Evaluation Team prepared draft working papers on each TC operation, following in scope, design and process the normal Operation Performance Evaluation Review approach. EvD circulated these draft working papers to the operation leaders concerned for comments and reflected their comments in revised versions of these papers. EvD has retained a set of the working papers, which provide the basis for this report, in its files.

Chapter 2 summarises the TC activities funded. Chapter 3 considers their relevance to the MCF's and the EBRD's mandates and to Mongolia's needs, as well as their additionality. Chapter 4 provides the Team's assessment of the results, including its operation performance and transition impact ratings and its assessments of the sustainability of the benefits. In addition, where possible, it compares costs and benefits. Chapter 5 comments on the EBRD's handling of the individual operations, its self-evaluation system, and its management of the MCF. Finally, Chapter 6 presents conclusions and recommendations.

2. ACTIVITIES FUNDED

Before seeking approval to establish the MCF, the EBRD sent a fact-finding mission to assess Mongolia's needs for grant-funded assistance and draw up a preliminary plan of activities.[7] The mission found that other donors had active aid programmes but that these programmes did not cover some needs. It suggested several areas that could benefit from the Bank's expertise, and the EBRD's proposal to the Board provided a list of TC activities that might be funded.

As often happens, the activities funded differed from the initial expectations (Appendix 2). Only two of the ideas in the indicative list actually materialised. The TC operations actually funded were mostly suggested by the Mongolian authorities after the list had been established, and two were suggested by MCF donors. Ultimately, however, the projects undertaken depended on the interests of the EBRD's Central Asia team and the sector teams. (See Chapter 5.3.)

Between late 2001 and the end of 2004, the MCF approved funding commitment of €6.3 million for 11 TC operations (Table 2.1 and Appendix 3). Three of these operations sought to improve the performance of real sector enterprises. Three sought to improve the performance of financial institutions. Two sought to privatise or further privatise important business sectors, and one—MIAT, already included in the first category, above—sought to prepare a company for privatisation. The final three were more diverse, calling for advice on legal transition issues, a plan for the development of petroleum refining facilities and a master plan for civil aviation.[8] As discussed in the

7 "Proposal for the Use of Cooperation Funds for EBRD Activities in Mongolia," *op. cit*., Annex 1. The Dutch government provided grant funds for the fact finding mission.

8 The TC operations could also be categorized in other ways. For example, the TAM, MIAT, and Khan Bank operations (accounting for 67.7 per cent of the total) provided managers or advisers to individual companies or institutions; three operations (accounting for 8.1 per cent of the total) provided training; and the two privatisation projects, as well as the downstream petroleum project, (accounting for 14.4 per cent of the total) addressed issues relating to overall business sectors.

remainder of this chapter, many of these operations had multiple components, and many served multiple beneficiaries.

Table 2.1 - Commitments and Disbursements
(€'000)

	Committed (through 12/04)	Disbursed (through 6/05)	% of Commitments
Improving performance of real sector enterprises			
o TAM	2,330	1,499	37.1
o Mongolian International Airlines (MIAT)	1,074	963	17.1
o SME Management Training	73	20	1.2
➢ Total	3,477	2,482	55.3
Improving performance of financial institutions			
o A local commercial bank's micro-credit advisers	850	251	13.5
o Bankers' training programme	360	288	5.7
o Training on international banking	115	109	1.8
➢ Total	1,325	648	21.1
Privatisation			
o Power sector	500	232	8.0
o Telecommunications	350	198	5.6
➢ Total	850	430	13.5
Others			
o Corporate governance & secured transactions	226	225	3.6
o Downstream petroleum (refinery)	49	49	0.8
o Master plan for civil aviation	359	359	5.7
➢ Total	634	634	10.1
Grand Totals	6,286	4,193	100.0

2.1 IMPROVING PERFORMANCE OF REAL SECTOR ENTERPRISES

The MCF allocated 55 per cent of total commitments to three TC operations aimed at improving the performance of existing real sector enterprises.

TurnAround Management (TAM) Programme. The MCF allocated €2.3 million, or 37 per cent of total commitments, to the TurnAround Management Programme. This programme, which is managed by the Bank's TAM team, seeks, "To enhance the knowledge, confidence and capabilities of the senior management of potentially viable enterprises…and to assist them to lead these enterprises into sustainable economic success in a market-oriented economy and, where appropriate, in their transition to privatisation."[9] In assisting an enterprise, TAM arranges for a team of senior, high- level business executives to make a series of visits over a period of 12 to 18 months. TAM provided services to 22 companies in Mongolia. Leaving aside one large, public- sector mining company, these enterprises were all privately owned and had between 15 and 750 employees each.

9 EvD, "Special Study: TurnAround Management Program (TAM): Regional," April 2004.

Mongolian International Airlines (MIAT). The MCF allocated €1.1 million, or 17 per cent of total commitments, to MIAT, a state-owned company that operates most domestic flights and more than 60 per cent of Mongolia's international flights. The Mongolian government, which was planning to privatise MIAT, considered a financial turnaround to be a necessary condition for the privatisation and requested MCF assistance to improve MIAT's operational, commercial and financial performance. The MCF funded two TC operations, both managed by the Transport Team. The first called for a diagnosis and preparation of a restructuring plan to make MIAT a commercially viable entity and then, after approval by the MCF and the Mongolian government, for an expatriate team to take over management for ten months to carry out the approved restructuring plan. The second operation, approved after the government decided to defer privatisation, called for the expatriate team to spend an additional six months to improve flight safety and financial management, focus on a successful hand-over to the local management team and ensure that the restructuring steps taken would be sustainable after the hand-over to Mongolian managers. MIAT's total employment was about 950 when the MCF undertook this operation.

SME management training programme. The MCF allocated €73,000, or 1 per cent of total commitments to this programme, which was proposed by Taiwan, one of the MCF's donors. The programme, managed by the Central Asia team , called for sending entrepreneurs running small or medium-sized enterprises (SMEs) to Taiwan to enhance the Mongolian SME managers' skills and knowledge through structured training courses and give them an opportunity to see successful Taiwanese SMEs in similar businesses and to exchange views with the owners of these businesses. Employment at the fifteen companies participating in this programme ranged from 12 to 50; in other words, they were generally, but not necessarily, smaller than the companies participating in the TAM Programme.

2.2 IMPROVING PERFORMANCE OF FINANCIAL INSTITUTIONS

The MCF allocated 21 per cent of total commitments to three operations aimed at improving the performance of financial institutions.

A local commercial bank's micro-credit advisers. The MCF allocated €850,000, or 13.5 per cent of total commitments, to this operation. The MCF had focused on this bank from the outset because its extensive branch network made it the principal provider of banking services in rural Mongolia and because it had initiated a micro-lending programme. Under this operation, managed by the Group for Small Business team, the MCF funded two expatriate credit experts. After a series of revisions, the terms of reference called for the advisers to assist in designing and implementing products and procedures for mass micro- and small-scale lending; introducing quick-approval, quick-disbursing micro-loans; developing lending based on cash-flows, rather than collateral; and improving the bank's credit function generally.

Bankers' training programme. The MCF allocated €360,000, or 5.7 per cent of total commitments, to the Bankers' Training Programme, an operation proposed by Luxembourg, one of the MCF's donors, and the Bank of Mongolia. When the MCF undertook the operation, Mongolia's banking sector was fragile and was contributing little to the country's development.[10] The EBRD's Central Asia team led the operation itself because it believed the Financial Institutions team would not be able to allocate resources to lead the operation. The programme funded 22 training courses, proposed by Mongolia's central bank, for commercial bank, non-bank financial institution and central bank staff. It included a four-day seminar in Luxembourg for chief executive officers, a 16-day course in Luxembourg on private banking for commercial bankers, three- to four-day courses in Ulaanbaatar on e-banking and new financial products and a range of three- to six- day courses in London for central bank staff members. The programme provided training to 124 managers and employees from 19 financial institutions.

Training on international banking operations. Six months after approval of the Bankers' Training Programme, the MCF allocated €115,000, or 1.8 per cent of total commitments, to a separate programme for training bankers. This operation was handled by the Financial Institutions team. The programme funded five three- to four-day courses in Ulaanbaatar covering trade finance, correspondent banking and international payments, fraud and money laundering, and treasury products and risk management. The programme provided training to 162 managers and employees from 17 financial institutions.

2.3 PRIVATISATION

The MCF allocated 13.5 per cent of total commitments to privatisation—one operation for electric power and the other for telecommunications.[11]

Power sector. The MCF allocated €0.5 million,[12] or 8 per cent of the MCF's total commitments, to a project for private sector participation in Mongolia's power sector. The government had already passed an energy law and a resolution calling for privatisation. It had restructured the state-owned power company into separate generation, transmission and distribution companies. It was also working, with the assistance of the World Bank and the United States Agency for International Development (USAID), on commercialisation of the unbundled power companies, strengthening the country's new regulatory agency, improving power tariff methodologies and developing a grid code. The TC operation, funded by the MCF and managed by the Power and Energy Utilities team, was to complement this work by defining a strategy for private sector participation, undertaking preliminary marketing to

[10] World Bank, Operations Evaluation Department, *Mongolia: Country Assistance Evaluation*, May 27, 2004 (Report No. 29190), pp. 4-5.

[11] As indicated earlier, the evaluation team has characterized the TC operation for MIAT as intended to improve the performance of an existing enterprise. Were MIAT included here, privatisation operations would account for 30.6 per cent of total commitments.

[12] In addition, the Mongolian Government agreed to pay a success fee equivalent to 0.5 per cent of the proceeds of privatisation sales, subject to a ceiling of €350,000.

assess the interest of potential strategic investors and, subject to at least two qualifying companies expressing interest, implementing the strategy.

Telecommunications. The MCF allocated €350,000, or 5.6 per cent of total commitments, for further privatisation of Mongolia's telecommunications sector. The government had partially privatised the country's telecommunications assets in 1995 and wanted to go further. The TC operation, managed by the Telecom team, aimed to assist the stakeholders in reaching a consensus on further privatisation, reach agreement among the stakeholders on the form of privatisation and help the government to carry out, where necessary, the transfer of assets and the privatisation. The TC called for these objectives to be addressed in three consecutive phases and for progress from phase to phase to be subject to specified conditions.

2.4 OTHER TC PROJECTS

Downstream petroleum: development of refining capacity. The MCF allocated €49,497, or 0.8 per cent of total commitments, for the preparation of a detailed plan for the development of downstream facilities, particularly refining facilities, based on crude oil production in Mongolia. Mongolia was totally dependent on imported petroleum products and a foreign oil company had discovered some oil in the country. The authorities were anxious to get a report before the coming parliamentary elections. The Natural Resources team managed this operation.

Corporate governance and secured transactions. The MCF allocated €226,000, or 3.6 per cent of total commitments, to three TC projects dealing with legal transition.[13] All were managed by the Legal Transition team. Corporate governance accounted for over 90 per cent of these expenditures. The first project, with €21,000 of funding, covered an assessment of the current legal and regulatory institutions relating to corporate governance and secured transactions and the development of follow-on legal reform projects in these two areas. The second project, with €7,000 of funding, added Mongolia to an ongoing desk review of corporate governance practices in the EBRD's countries of operations, benchmarked against the Organisation of Economic Cooperation and Development's Principles of Corporate Governance and international best practice. The overall assessment was to provide the Bank with a detailed analysis of the laws, regulations and decrees, dealing with corporate governance and to enable the Bank to identify gaps, conflicts or other deficiencies in each of its countries of operation. The third project, with €198,000 of funding, called for an assessment of the corporate governance legal framework and practice in Mongolia and an action plan to assist the government's parliamentary working group in its efforts to improve corporate governance. The objectives of these three operations, carried out by three separate consultants or consulting teams, overlapped to some extent.

Master plan for civil aviation. The MCF allocated €359,000, or 5.7 per cent of total commitments, to a master plan for Mongolia's Civil Aviation Authority (CAA). The TC operation, managed by the Transport team, aimed to build on the achievements of an

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13 The MCF has recently approved a fourth TC assignment, dealing with secured transactions.

earlier master plan funded by the Asian Development Bank. It called for a review of the CAA's organisation (including its organisation for economic regulation), its investment needs for air traffic services and domestic airports, and human resources development.

3. RELEVANCE AND ADDITIONALITY

3.1 RELEVANCE

Seven of the MCF's eleven operations—accounting for 86 per cent of total commitments through December 2004—fully meet the test of relevance. The three operations seeking to improve the performance of real sector enterprises, two of the three seeking to improve the performance of financial institutions, and both operations seeking to promote privatisation all address high priority needs and are consistent with the EBRD's and the MCF's mandates. The remaining four, however, raise some doubts—at least in part—with respect either to their economic priority or else their relevance to the Bank's and the Fund's mandates.

Bankers' training programme. Some components of the training funded under this programme were either not relevant to Mongolia's priority needs or else were only indirectly relevant to the EBRD's and the MCF's mandates. Mongolia's central bank had identified the specific courses to be provided and the training institutions to be used, and EBRD's Central Asia team, which handled this operation, accepted the central bank's proposals rather than relying on the experience of the Financial Institutions team.

- The seminar on private banking given by *l'Ecole de Gestion de Fortunes* in Luxembourg (36 per cent of total expenditures for the Bankers' Training Programme) sought to give the participants the necessary background to deal successfully with wealthy clients. Although five of the seven participating banks that the evaluation team visited developed private banking services as a result of the training, developing these services was clearly not an economic priority. These banks now provide better service to their wealthy clients but do not face a demand for the sophisticated services covered by the Luxembourg training.[14]
- Efforts to develop the human resources of commercial banks are fully consistent with the Bank's and the MCF's mandates. Efforts to develop the human resources of the central bank (32 per cent of total expenditures) may be useful, but are further removed from the intentions expressed in these mandates.[15]

Downstream petroleum: development of refining capacity. Because of its special circumstances, Mongolia has good reason to be concerned about the security of supply of petroleum products and to be interested in the possibility of using domestic oil resources to replace imports. As suggested in Chapter 2.4, however, the timing of this operation

[14] According to the Bank's staff, the EBRD had questioned this course, but ultimately accepted the Bank of Mongolia's priorities.

[15] The MCF's steering committee has come to the same conclusion. Minutes, 23 May 2005. See also Appendix 1.

reflected domestic political considerations, rather than economic priorities. Petroleum exploration activities had not progressed far enough to provide a meaningful basis for examining the best use of the country's resources. Moreover, contrary to the staff's belief, supply disruptions did not take place on a regular basis, and self sufficiency does not seem to have been a pressing issue. The study was not relevant to Mongolia's current economic priorities and should have been deferred pending the development of more information on the country's oil resources.[16]

Corporate governance and secured transactions. The evaluation team considers that this series of TC assignments was fully consistent with the EBRD's and the MCF's mandates and that improving the framework for secured transactions was a high priority. It has doubts, however, about the economic priority of addressing corporate governance issues in Mongolia. A recent report, published after the MCF decided to fund the three TC operations, suggests that the main weaknesses in the country's legal framework relate to the excessive time and costs required for resolving bankruptcies and enforcing contracts.[17] The EBRD did not have access to this report when deciding on its legal transition assistance activities in Mongolia, but still might have been more critical in assessing whether corporate governance deserved to be treated as a high-priority issue.[18]

Master plan for civil aviation. Safe, reliable air transport can improve the efficiency of the Mongolian economy and reduce barriers to productive investments. In addition, by maintaining a proper air navigation system, Mongolia generates value added of about $25 million per year (equivalent to roughly 2 per cent of GDP) from fees on flights crossing over the country. The TC operation was certainly relevant to the MCF's mandate and Mongolia's development needs. The operation, however, does not contribute to transition and, hence, is not relevant to the EBRD's mandate.[19]

3.2 ADDITIONALITY

Although, absent the MCF, other multilateral or bilateral donors may have covered the costs of some of these assignments, none of them would have gone ahead without public funding. Some of the companies and banks assisted might have been able to hire

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16 The Natural Resources team disagrees with this paragraph. As discussed in the working paper on this operation, however, the factors responsible for past supply disruptions are unlikely to recur, and Mongolia has several alternatives other than autarky. It can expand imports from China, particularly since a TACIS-funded trans-shipment depot for oil products, located on the Mongolian side of the border only 780 kilometers from Ulaanbaatar, was (according to a November 2003 report on www.bizmongolia.mn) scheduled for completion in December 2003, six months before the TC operation started. Moreover, Mongolia can—and now does—import oil from Kazakhstan as well as from Russia and China. And it can build up buffer stocks.

17 www.worldbank.org/DoingBusiness/ExploreEconomies/BusinessClimateSnapshot.

18 The Legal Transition team believes that addressing the issue of corporate governance was appropriate because the government requested help with this issue, rather than with bankruptcies and contract enforcement, and because the EBRD did not have the necessary expertise at the time (although it did have this expertise before and after approval of the three operations). As indicated in the working paper, the evaluation team did not find these arguments to be convincing.

19 The Transport team does not support this conclusion. The working paper on this operation lays out their views and the evaluation team's reactions.

consultants or to spend more of their own resources on training. None, however, would have been willing to arrange and pay for the services entirely on its own. All the TC operations funded therefore satisfy the EBRD's concerns about additionality.

Still, the justification for the MCF's covering 100 per cent of the costs of TC assignments benefiting profitable private companies and banks can be questioned. The €850,000 allocated for providing advisers to the local commercial bank, for example, is equivalent to 37 per cent of that bank's 2004 after-tax profits. Subsidies, particularly when they are substantial, need to be justified, and the need for justification is particularly important for the EBRD because of its transition mandate. Moreover, even leaving aside the economic justification for subsidies, the MCF would have been able to support a larger number of beneficiaries had some of the companies and banks assisted shared in the costs.[20]

4. THE RESULTS

The MCF has generated good results. The evaluation team assigned *Successful* or better overall performance ratings to five of the seven completed TC projects—the two training programmes for banks, SME management training, corporate governance and secured transactions, and the master plan for civil aviation. It assigned *Partly Successful* or *Unsuccessful* ratings to two—MIAT and downstream petroleum. In all but one case, the transition impact ratings were consistent with the overall performance ratings, and in all but one case, the team saw no reason to doubt the sustainability of the benefits. Where the team was able to estimate the benefits, the benefits far exceeded the costs. As in any evaluation, the ratings reflect expectations about the future and, should these expectations prove incorrect, different ratings might be appropriate.[21] Appendix 4 summarises the overall performance ratings and their components (overall transition impact, fulfilment of objectives, additionality, bank handling and, where relevant, project financial performance, company performance, environmental performance of sponsors and the Bank, and extent of environmental change). Appendix 5 summarises the overall transition impact ratings and their components (short-term verified impact, long-term impact potential, and risk to potential transition impact).

Because the remaining operations have not been completed, the evaluation team has not assigned ratings. Still, based on the progress made and the team's current expectations, three of the four would probably deserve *Successful* or better ratings—TAM, the local commercial bank's micro-credit advisers, and telecommunications privatisation. The fourth—power sector privatisation—would probably not.

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[20] The EvD's evaluation of the TAM Programme devoted some attention to subsidies and cost recovery. See TAM evaluation, *op. cit*., pp. 20-21 and Appendix 6.2.

[21] The importance of expectations is particularly important because the operations were virtually all completed less than a year before the evaluation. In contrast, in keeping with the "Good Practice Standards for Evaluation of Private Sector Investment Operations," Second Edition, issued by the Multilateral Development Bank, Evaluation Cooperation Group, the EBRD evaluates investment operations only after, among other things, the project financed has generated at least 18 months of operating revenues. (Slightly different requirements apply to financial markets projects.)

4.1 SUCCESSFUL OPERATIONS (AND INCOMPLETE OPERATIONS LIKELY TO BE SUCCESSFUL)

Training programmes. The evaluation team assigned *Successful* overall performance ratings and *Satisfactory* or better transition impact ratings to all three training programmes.[22] These programmes provided training to roughly 265 bankers from 16 of the country's 17 commercial banks as well as a few non-bank financial institutions, 19 central bank staff members, and 15 small business entrepreneurs. The findings from the evaluation team's visits to nine commercial banks, the central bank and nine SMEs participating in the training courses were quite positive.

- Virtually all the trainees and supervisors that the team interviewed reported that they were satisfied or very satisfied with the training.
- Virtually all said that the trainees had gained new knowledge or skills as a direct result of the training and that the new knowledge or skills had been put to work in their institutions or companies.
- Four of the commercial banks and five of the SMEs said that they had made changes in strategies or policies due to the training. Seven of the banks and all of the SMEs said that they had made changes in procedures or practices. And five of the banks and five of the SMEs had introduced new products or services as a result of the training.
- Five of the nine banks said that the training had contributed to increased revenues, increased profits or reduced riskiness, and six of the nine SMEs said that the training had contributed to increased revenues and profits. None reported reduced revenues or profits or increased riskiness.

The incremental profits of four SMEs that were willing to provide estimates of their revenues *with* and *without* the training, should cover the overall costs of the SME Training Programme in little more than a year. Since a fifth company reported a 25 per cent increase in profits but did not indicate the total amount, and since profits may have also increased at some of the six companies not visited, the financial and economic returns on the total cost of the SME training operation are likely to be around 100 per cent per year or higher.[23,24] The high returns are not surprising. "X-efficiency"—the

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22 The team assigned a successful rating to the Bankers' Training Programme despite its concerns about the relevance of some courses to Mongolia's priority needs or the EBRD's and the MCF's mandates, because some courses were fully relevant and the benefits of all courses appeared to be significant.

23 The team derived the estimates of incremental profits by asking for average monthly net pre-tax profits currently and a rough estimate of what average monthly pre-tax profits would probably have been if the company had not received the MCF-funded training. Pre-tax profits provide a conservative estimate of the economic benefits, since the SMEs assisted are unlikely to generate material external costs but may generate positive externalities.

24 The evaluation team's findings on the SME training course are broadly consistent with the experience of two International Finance Corporation-supported SME facilities. A recent evaluation estimated economic returns on training at well in excess of 100 per cent. IFC, Operations Evaluation Group, *A Synthesis Evaluation of Four-IFC-Supported Small and Medium Enterprise Facilities,* July 23, 2004, pp. 17-21. http://ifcln1.ifc.org/ifcext/oeg.nsf/Content/ProjectDevelopmentFacilities.

effectiveness with which a given set of inputs is used to produce outputs—is typically low in transition economies. Training can increase efficiency and profits significantly without requiring substantial investments, and consequently can generate high returns.

Although seeking to quantify the benefits to the banks would have been impractical, the benefits from the bank training programmes are also likely to far exceed the costs. The training served virtually all of Mongolia's commercial banks and a few non-bank financial institutions. The €475,000 committed for this training would be more than covered by, for example, the benefits of preventing the bankruptcy of just one institution, the benefits of increased efficiency in the banking sector or the benefits of increased foreign trade generated by the availability of improved trade finance facilities.

Notwithstanding the impressive findings, the team also found several concerns relating to the courses, the trainees, the teaching methods and the costs.

First, although the courses were generally appropriate[25] and well designed, several interviewees said that some of the material covered was not relevant in the context of Mongolia's business culture or the size and level of development of the local financial market.

Secondly, the trainees participating in individual courses were highly diverse. Some bankers had no prior knowledge or experience relevant to the material to be covered; others had extensive knowledge and experience. Some bankers held senior management positions; others were young, junior staff members. Some could understand English well; others not. And the SME entrepreneurs came from a wide range of industries. These differences made it difficult to satisfy the trainees' needs and to cover the material envisaged. The trainers had to explain the basics to the less advanced trainees but, in doing so, they bored the more advanced ones and could not deal with the material to the depth envisaged. Similarly, the trainees who could understand English had to spend time listening to the translation into Mongolian, while those who were weaker in English may have had difficulty understanding concepts difficult to translate even with the best of interpreters. (One trainer noted that the need for interpretation forced him to cover in three days what would normally have taken two.) And, because the SME owners came from a wide range of businesses, the SME Training Programme, contrary to expectations, could not arrange field visits to Taiwanese SMEs in the same lines of business for all the SME trainees. Some of these problems might have been avoided had the trainers been adequately aware of what to expect. More importantly, some might have been avoided by seeking greater homogeneity in the groups brought together for training; for example, by making clearer the level of the courses envisaged, calling for greater discretion in selecting trainees, or charging fees to encourage the banks to be more careful in their selection decisions.

[25] See, however, Chapter 3.1, above, with respect to the relevance of some courses to Mongolia's priorities and the EBRD's and the MCF's mandates.

Thirdly, although most of the people interviewed were satisfied with the training methods, several thought the training had been too theoretical. Some encouraged more use of case studies. Others suggested on-the-job training.

Lastly, the offshore training courses were expensive. The training course for SME managers given in Taiwan cost about €600 per trainee-day, and the training courses for bankers given in Europe cost €1,000 to €2,100 per trainee-day. In contrast, the courses for bankers given inside Mongolia cost only €150 to €200 per trainee-day. Some overseas training may be warranted, but the justification for arranging training outside the country might have been examined more critically.

Corporate governance and secured transactions. The evaluation team assigned a *Successful* overall performance rating and a *Satisfactory* transition impact rating to this series of three TC assignments. Although the first, which was not even translated into Mongolian, had no impact, the second provided a comprehensive assessment of the country's corporate governance legal framework, and the third drew on the second to develop a set of appropriate recommendations on corporate governance. The same results might have been achieved with a single, well designed TC operation. Moreover, the outcome has involved only minor changes so far, and the team could not compare the costs and benefits of this operation. Nevertheless, the changes made still justify a *Successful* rating.

Master plan for civil aviation. The team assigned a *Successful* overall performance rating to this operation. The consultant drafted the master plan in close consultation with Mongolia's Civil Aviation Authority (CAA) to ensure that it would not be just a desk study, but rather a strategic tool for the future, and this intention has been realised. The CAA has been using the master plan despite it not having been translated into Mongolian. It has made some organisational changes and, once Mongolia becomes a country of operations, it is planning to request EBRD financing for some of the recommended investments. Although the team found that the TC operation did not affect any of the parameters used in assessing transition impact and although it could not quantify the benefits from the TC operation, it considers that the operation is contributing to Mongolia's economic development.[26]

TurnAround Management (TAM) Programme. TAM has completed only 10 of the 22 assignments it has undertaken in Mongolia, but the evaluation team considers this operation likely to earn a *Successful* rating. TAM's independent evaluation adviser has rated seven of the ten as *Successful* or *Highly Successful* and three as *Unsuccessful* or *Closed Early* because of a lack of cooperation. The team's 2004 study had determined that the ratings assigned by TAM's evaluation adviser were generally consistent with its own judgments. If TAM's operations in Mongolia are as successful as its operations elsewhere, the financial and economic returns are likely to be well in excess of 100 per cent per year.[27]

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[26] See footnote 19 on the issue of transition impact.
[27] TAM evaluation, *op. cit.*

The local commercial bank's micro-credit advisers. The MCF-funded advisers have been in place for less than six months, but the evaluation team believes the operation is likely to be successful. The advisers have made progress in helping this bank expand its lending to micro and small enterprises and reduce its reliance on collateral. They have been flexible in addressing the institution's needs and are affecting its operations beyond the specific objectives established for the assignment.

Telecommunications. Although the consultant is just starting the final phase of this assignment, the evaluation team believes the operation is likely to be *Successful* or possibly even *Highly Successful*. The consultants questioned the initial assumption that privatisation should involve a vertically integrated sale of the country's telecommunications transmission assets together with the assets needed for serving end users, and instead proposed an innovative solution better suited to the situation in Mongolia. The approach adopted involves separating telecommunications transmission and end-user services, a structure comparable to the separation of electricity transmission lines and electricity distribution now common in the power sector. The prospects for realisation of this plan appear good.

4.2 LESS THAN SUCCESSFUL OPERATIONS (AND UNCOMPLETED OPERATIONS LIKELY TO BE LESS THAN SUCCESSFUL)

Mongolian International Airlines (MIAT). The evaluation team assigned a *Partly Successful* overall performance rating and a *Marginal* transition impact rating to this assignment. The expatriate management kept MIAT from going bankrupt and can take credit for US$ 1.8 million to US$ 2.5 million of incremental profits, a significant amount in relation to MIAT's earlier operating results (average 1999-2002 after-tax profits of US$ 0.5 million and a 2003 loss of US$ 5.4 million) and substantially more than the €1.1 million cost of the assignment. Nevertheless, shortly before the assignment ended, the government appointed a new chief executive who then brought in a new management team lacking experience in the airline industry. The evaluation team believes the improvements made and the resulting benefits are unlikely to be sustained, and believes that the prospects for MIAT's privatisation are no better now than before the assignment.[28]

Downstream petroleum: development of refining capacity. The team assigned an *Unsuccessful* overall performance rating and an *Unsatisfactory* transition impact rating to this assignment. The consultant's report did not fully satisfy the requirements in the terms of reference (TORs) and provided advice inconsistent with Mongolia's needs for transition and development. It rejected continued reliance on imports but did not critically assess the risks of supply interruptions, the costs and possibilities of mitigating the risks. The report did not identify the questions that would have to be answered to determine whether a topping plant,[29] which it described as the "preferred option," could

[28] The Transport team disagrees with these judgments. The working paper on this operation lays out their views and the evaluation team's reactions.

[29] Crude oil topping plants are relatively simple distillation units that can be used to produce a variety of light products, including naphtha, kerosene and diesel fuel.

be economically viable. It encouraged devoting further resources to this alternative and others without providing a basis for believing that these efforts would be warranted. And, by encouraging the development of facilities that would have to rely on subsidies, possibly in the form of transfer prices for domestic petroleum, and by calling for de-linking domestic petroleum product prices from world petroleum prices, the report provided advice inconsistent with the EBRD's goal of encouraging transition to a market economy and inconsistent with Mongolia's development needs.[30]

Power sector privatisation. Although it is too early to assign an overall rating, the evaluation team believes that this TC operation is likely to end up being unsuccessful. The operation is already more than a year behind schedule, the consultant's privatisation strategy report is unsatisfactory, collaboration with other donors advising on the power sector has been inadequate and prospects for a positive impact are highly uncertain.[31] In addition, by embracing the government's opposition to further integration with the Russian grid, the draft of a second report provided to the government and to the EBRD, may discourage movement towards a more competitive market, one of the objectives of transition.[32]

5. THE EBRD'S HANDLING OF THE MCF

5.1 TC PROJECTS

The evaluation team considered the EBRD's own performance to be *Good* in four of the seven completed projects and less than satisfactory in the three remaining ones. Based on

30 The Natural Resources team disagrees with the judgments in this paragraph. The working paper records its comments in great detail and provides the evaluation team's reactions. Footnote 16, above, discusses the risk of supply disruptions. This footnote briefly discusses the consultants' action plan, which calls for the development of one or more small topping plants in the short term, combined coal-gasification cum gas-to-liquid facilities in the medium-term, and bio-diesel facilities in the long-term. Neither the consultants' report nor the Natural Resources team's comments deal adequately with economies of scale (particularly relevant for a country with a population of 2.7 million and a per capita income of less than US$ 500), feedstock supplies, market requirements, prices for crude exports and product imports, and financial and economic returns. A topping plant may possibly be economically justified, but the consultants' report does not make a credible case to support its recommendation that further efforts be devoted to this alternative.

31 The operation leader disagrees with some of the judgments in the previous sentence. The working paper provides the evaluation team's reactions. In brief, (i) the assignment may have been delayed for good reasons, but it is nonetheless behind schedule; (ii) despite improvements in the final text, the team still considers the consultants' privatisation strategy paper to be unsatisfactory; (iii) notwithstanding the terms of reference, the consultant did not work "in close cooperation with all other consultants currently advising [the government] on energy sector issues"; and (iv) the team has serious doubts on the likely outcome.

32 Mongolia now buys or sells power on the Russian grid, depending on technical requirements. Although Russia could probably supply electricity at a lower cost, the Mongolian government opposes further integration. Mongolia's resistance to drawing on the Russian grid on a regular basis is understandable, but the consultant should at least have called for transparency, that is,, for an estimation of the incremental cost of limiting integration with the Russian grid, rather than supporting the government's views.

performance to date, it would have assigned *Good* ratings in three of the four uncompleted projects and a ess than satisfactory rating in one.

In all cases where the EBRD's own performance was *Good*, the overall performance of the TC operation was *Successful* or better. In two of the three cases where the EBRD's own performance was *Less than satisfactory*, the overall performance was less than successful.

Favourable findings

The EBRD demonstrated appropriate flexibility in allowing the consultants to diverge from the initial terms of reference when conditions on the ground turned out to be different from what had been expected. In the telecommunications privatisation assignment, for example, the consultants found that the vertically integrated sale of telecommunications assets initially envisaged did not make sense and instead proposed an innovative solution calling for separating transmission and end-user telecommunications services (Chapter 4.1). The MCF agreed to this change. Similarly, in the micro-credit adviser assignment, the MCF agreed to a series of modifications in the terms of reference to reflect the changing conditions on the ground and has focused on the underlying goals, rather than the detailed activities specified by the terms. Both operations appear to be headed for *Successful* outcomes.

Unfavourable findings. The team found five shortcomings.

The EBRD failed to address the key issues in one operation. In the downstream petroleum operation, it uncritically accepted the government's wish for a detailed plan to develop refining capacity based on domestic crude oil production and commissioned consultants to address this task, rather than questioning the justification for the assignment or calling for the consultants to start out by considering under what conditions this objective might be economically justifiable.[33]

The EBRD allocated insufficient resources to achieve the objectives envisaged in two cases. In the downstream petroleum operation, it allocated €49,497 for preparation of a detailed plan to develop refining capacity *and* a pre-feasibility study for the "best option," yet the staff now considers that this sum would have been insufficient even to determine whether a *prima facie* case exists for exploring the idea of a topping plant further. In the first corporate governance and secured transactions assignment, the MCF allocated €21,000 for a consultant to assess Mongolia's legal and regulatory institutions relating to corporate governance and secured transactions and to develop proposals for improvements. The MCF subsequently allocated €205,000 to achieve these objectives for just the corporate governance part of the assignment.

33 The Natural Resources team disagrees with this paragraph. The working paper summarizes their views and the evaluation team's reactions.

The EBRD did not do enough to induce the government to take the steps needed for MIAT to operate as a profitable business and to facilitate its privatisation. The EBRD recognised the risks that the expatriate management team would lack the power and autonomy it needed and that the government would fail to carry out necessary reforms. The EBRD thought it had mitigated the risks through two documents signed by the government agencies involved. These documents, however, did not go beyond expressing the government's general intentions and, in any event, did not provide the EBRD with any leverage, such as allowing the MCF to withdraw the expatriate consultants if the government interfered or failed to deal appropriately with the crucial issues.[34] (See also recommendation 5 in Section 6.2.)

The EBRD did not devote enough time and effort to several TC operations. Two consultants commented that the EBRD's operation leaders had an excellent understanding of their sectors and that they were very helpful when available. They complained, however, that the operation leaders were seldom available. They indicated that the EBRD played only a minor role in these operations and, to some extent, delayed progress. Five operation leaders commented to the evaluation team on the same issue. They would have liked to devote more time to TC operations but felt that (i) management was primarily concerned with completing investment transactions and gave low priority to TC operations and (ii) the fact that Mongolia was not yet a country of operations exacerbated this problem. The evaluation team's findings corroborated these views. Although some operation leaders handled their TC responsibilities well, others appeared to be unaware of what was happening on the ground, did a superficial job in vetting consultants' reports, or did not even have the final terms of reference that they would have needed to monitor compliance.[35]

The EBRD did not require translation of consultants' reports into Mongolian in several operations and, in one case, did not enforce the terms-of-reference requirement that the consultant's report be translated. Many Mongolians can read English, but others cannot. Mongolian officials who cannot read English do not have access to the information, analysis and recommendations provided in untranslated reports.[36]

5.2 SELF-EVALUATION

The self-evaluation system is falling short of expectations. First, the EBRD staff prepared completion reports on only three of the seven completed TC programmes (with separate reports for the three components of the corporate governance programme). Secondly, the staff generally assigned completion report ratings higher than the evaluation team ratings—four out of five for overall performance and three out of five for fulfilment of objectives and for bank handling. In two assignments, the staff assigned overall performance ratings of *Successful* or better, and the evaluation team assigned less

[37] The Transportation team does not support this recommendation. The working paper on this operation lays out their views and the evaluation team's reactions.

[35] At least two operations leaders provided the EvD with outdated versions of the terms of reference.

[36] Further problems can, of course, arise if the translation does not accurately reflect the meaning of the original text.

than successful ratings. In these two assignments, the staff considered Bank handling to be *Good* or *Excellent*, and the team considered Bank handling to be *Unsatisfactory*.

Table 2.1 – Staff and evaluation team ratings

	Downstream petroleum	**Civil aviation**	**Corporate Governance & Secured Transactions**		
			Corporate governance and secured transactions - I	**Corporate governance – II**	**Corporate governance - III**
Fulfillment of Objectives:					
• Staff rating	Excellent	Excellent	Good	Good	Excellent
• Evaluation team	Marginal	Good	Marginal	Good	Excellent
Bank Handling					
• Staff rating	Excellent	Excellent	Good	Good	Good
• Evaluation team	Unsatisfactory	Good	Unsatisfactory	Good	Good
Overall Performance					
• Staff rating	Highly Successful	Highly Successful	Successful	Successful	Highly Successful
• Evaluation team	Unsuccessful	Successful	Partly Successful	Successful	Successful

5.3 MANAGEMENT OF THE FUND

Governance and administration

The arrangements for governance and administration have, on the whole, worked well and contributed to the generally successful outcomes. Nevertheless, three issues deserve attention.

First, the EBRD may have exercised insufficient care in approving the TC operations not identified by the initial fact-finding mission and not included in the indicative list attached to the April 2001 proposal for establishing the MCF. Four of the eight operations identified after April 2001—nearly all suggested by the Mongolian authorities—may not have been fully relevant to the EBRD's or the MCF's mandates or may not have addressed Mongolia's priority needs, and two (including one not relevant to Mongolia's priority needs) received overall performance ratings of less than successful. In contrast, the three already identified in the April 2001 proposal were all fully relevant, and all appear likely to be successful.

Secondly, the evaluation team questions the appropriateness of the amounts allocated to some operations. In its investment operations, the EBRD can assume a continuing flow of resources and, thus, a decision to finance one project this year does not forestall financing another one next year. By contrast, the MCF had a fixed amount of money to allocate. Thus, a decision to allocate, for example, 13.5 per cent of its resources to the local commercial bank implied that the MCF would have €850,000 less for, say, training programmes. Conversely, the decision to use only €49,497 for the downstream petroleum operation may have kept it from addressing the key issues that needed to be considered.

Thirdly, the administrative arrangements made it difficult to ensure that the EBRD staff devoted adequate time and attention to the MCF. The EBRD's culture gives top priority to investment operations, rather than TC. Moreover, since Mongolia is not yet an EBRD country of operations, the sector teams have naturally been less than enthusiastic about spending time there. And the MCF's administrator, who spends only 10 per cent of his time on the MCF, has little authority over the sector teams. As a result, the administrator could not ensure that the sector teams would investigate the prospects for TC operations that he or the steering committee considered worthwhile or spend sufficient time on supervision. The adequacy of the time devoted to MCF operations has depended heavily on the interests of the individual operation leaders. (Chapter 5.1.)

Administrative costs

The MCF bears two types of administrative costs. First, the MCF pays the EBRD a 5 per cent management fee, equivalent to €515,000 on the €10.3 million pledged to the fund. Through December 2004, €370,000 had been charged against this fee to cover the costs incurred by the banking department in connection with MCF projects (including staff time), costs for the annual external audit and support department costs.

At the start of 2005, the EBRD had €145,000 left to cover its costs for the remainder of the MCF's life. This sum, equivalent to 28 per cent of the total fees, will have to cover the costs involved in committing the €2.8 million remaining (equivalent to 28 per cent of the full amount available for TC operations) plus the costs involved in administering the new projects as well as the projects not yet completed (TAM, local commercial bank, power privatisation, and telecommunications privatisation) and the costs of this evaluation. If the post-2004 costs exceed €145,000, the EBRD will have to absorb the difference.

Secondly, the EBRD allocates the MCF resources to cover the costs of the MCF's Ulaanbaatar office. Through December 2004, the EBRD had allocated €276,000 for these costs.

Total administrative costs through December 2004 were equivalent to roughly 10 per cent of the MCF's TC commitments.[37]

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[37] TAM's administrative expenses were equivalent to roughly 11 per cent of the total costs of arranging for advisers to serve clients under the TAM Programme. EvD, TAM Study, p. 16.

6. CONCLUSIONS AND RECOMMENDATIONS

6.1 CONCLUSIONS

The MCF's overall results can be considered successful. The evaluation team assigned *Successful* or better overall performance ratings to five of the seven completed TC projects and, based on progress so far and the team's preliminary assessments, three of the four uncompleted projects will probably deserve *Successful* or better ratings on completion. Overall, about 75 per cent of the TC projects funded (accounting for about 75 per cent of the amounts committed) are likely to be successful.

The three training operations, which accounted for only 8.7 per cent of the MCF's commitments, were particularly successful. Five of the nine commercial banks visited said that the training had contributed to increased revenues, increased profits, or reduced riskiness, and six of the nine SMEs visited said that the training had contributed to increased revenues and profits. The economic returns on the SME training programme are likely to be around 100 per cent per year or higher.

More broadly, all of the operations that essentially served identifiable private enterprises or institutions have succeeded or appear likely to succeed. This category includes the three training projects, the local commercial bank and TAM. As indicated earlier, TAM has had some disappointments, but the bulk of its completed assignments have succeeded.

In contrast, the results for the operations serving public sector enterprises or not serving identifiable enterprises have been mixed. The team rated the civil aviation and corporate governance TC operations as *Successful* (though the former had no transition impact and the latter has had little impact so far).[38] It rated the MIAT TC operation, which involved providing assistance to a government-owned enterprise, and the downstream petroleum TC operation, which involved a sector study, as less than successful. And it expects that one of the uncompleted privatisation operations is likely to be *Successful* and the other not.[39]

The evidence of this study is too limited to permit generalisations about the likely outcomes of different types of TC activities, but it does raise an issue that may deserve further study, possibly in collaboration with other multi-development banks.

6.2 RECOMMENDATIONS

Several recommendations arise from this evaluation.

[38] The Transportation team does not support the EvD's judgment on the civil aviation TC operation. The working taper on this operation lays out their views and the evaluation team's reactions.

[39] In addition, TAM sought to assist one public sector enterprise but dropped this assignment because of a lack of cooperation.

1. Importance of TC operations. *In view of the important role that TC can play in fostering transition, (beyond facilitating investment operations), the EBRD should ensure that its staff devotes the same attention to TC as to investments. The Bank's current incentive system emphasises investment volume in staff promotion and bonus allocation decisions.* So long as EBRD signals to its staff that meeting investment targets is more important than TC, its staff will tend to give lower priority to TC. The MCF consultants, EBRD operations leaders and the evaluation team all noted this problem. In view of the linkage between the EBRD's performance and outcomes, which has been documented in this report, treating TC as a lower priority is a disservice to the donors and intended beneficiaries. (Chapters 5.1 and 5.3.)

2. Consistency with transition mandate. *The EBRD should ensure that its TC operations are consistent with its transition mandate.* By funding preparation of a detailed plan for the development of downstream petroleum facilities, the EBRD supported continuation of a central planning mentality rather than a market approach. Moreover, because the consultants' report encouraged subsidies for the petroleum topping plant and the belief that Mongolia could insulate itself from fluctuations in world oil prices, the EBRD indirectly encouraged ways of thinking inconsistent with transition. The EBRD may not always be able to control the content of consultants' reports. But it should carefully review reports funded under its TC operations and, when it cannot impose revisions, should make clear its disagreement with recommendations that conflict with its mandate or sound economic policies.

3. Assessing proposed TC operations. *Although the EBRD should certainly continue to encourage beneficiary countries to present their own ideas for TC operations, it should not neglect its responsibility to allocate scarce TC funds based on its own independent assessment of the beneficiary country's needs and the requirements of it own mandates.* For example, the MCF undertook the downstream petroleum operation because a government agency was eager to get a detailed plan for the development of refining capacity and it undertook the private banking component of the bankers' training project at the request of the central bank despite the weakness of the economic rationales for both these activities. In addition, the MCF funded training for central bank staff despite this operation's not being consonant with the EBRD's and the MCF's mandates.

4. Consistency of objectives and funds allocated. *The EBRD should ensure that the funds allocated for a TC assignment are adequate to permit achievement of the operation's objectives.* The downstream petroleum operation, the first corporate governance assignment, and the power sector privatisation operation all called for the consultants to do far more than possible for the funds allocated.[40] In all of these cases, the project profiles set out a scope too ambitious for the amount budgeted, and in the first two cases the terms of reference went well beyond the project profiles. The first two both yielded disappointing results, and the third appears likely to yield disappointing results.

[40] The power privatisation operation called for the fees payable by the MCF to be supplemented by a success fee payable by the Mongolian Government. But even with the success fees, the total amount the consultant could expect from this assignment was still inadequate for the work required.

Although the second and third corporate governance assignments provided sufficient funding for the activities to be undertaken, the MCF did not provide any money to assist with implementation. The operation has generated some changes, but additional resources would have been needed to produce a significant impact. The evaluation team is not suggesting that the MCF should have provided additional resources, but rather that it should have provided sufficient funding to permit achievement of the objectives, modified the objectives to bring them into line with the funds available or else not funded the operations at all. [41]

5. Conditionality. *The EBRD should use the leverage inherent in providing grant funds to impose conditions necessary for the success of its TC operations.* In several cases, the MCF broke TC assignments down into stages and retained the right to decide whether to proceed, depending on the results of the initial stage(s). Similarly, TAM retains the right to terminate in all of its assignments if the client fails to cooperate with the advisers TAM provides. Indeed, TAM exercised this right in two of its 22 assignments in Mongolia. In contrast, despite recognising that the success of the MIAT operation depended heavily on the government's taking certain actions and not interfering with management, the MCF did not adequately use the leverage that comes with giving away money. For example, the MCF could have retained the right, exercisable at any time, to cancel the grant agreement, withdraw the consultants, and even require the government to repay amounts previously disbursed if it failed to take certain actions by specified dates or if it interfered with management. Such interference could include the replacement, without cause, of the managers trained by the expatriate team after completion of the TC assignment—which is what happened in the case of MIAT. The EBRD may not have the same leverage provided by its power to prematurely accelerate a loan if a client fails to respect loan covenants, but its ability to stop disbursing free funds and to call for repayment of amounts previously disbursed can also provide leverage.

6. The importance of clear terms of reference. *The terms of reference that the EBRD issues should be consistent with the objectives approved by the TC review committee and should clearly state what the EBRD expects the consultants to do.* In two assignments, the terms of reference went well beyond the objectives approved. In both cases, the evaluation team assigned *Less than Satisfactory* ratings. Moreover, in one case, the team could not understand what was required because of poor drafting. And in another case, the team could not understand what was required because the terms of reference called for the consultants to review an issue without indicating what they were to do with the results. Overly ambitious or unclear terms of reference are likely to lead to disappointing outcomes, which often come to light during evaluation.

7. Conflicts of interest. *Consultants charged with advising on privatisation should not be in a position to benefit from their recommendations.* The success fee payable by the Mongolian government based on the proceeds of power sector privatisation sales created an incentive for the consultant to make recommendations that would maximise the gross

[41] The inconsistency between intentions, as reflected in the terms of reference, and resources allocated (budget, time, and experience) is a recurrent issue identified in the EvD's evaluation of TC operations.

proceeds, rather than maximising the benefits to the country. The issue is not whether the consultant actually took the success fee into consideration in formulating their recommendations but rather whether they had an incentive to do so.[42]

8. Requirements for designing training programmes. *In designing training programmes, the EBRD should seek to ensure that (i) the material covered is relevant to the host country's business culture and the size and level of development of the local market, (ii) the group of trainees is reasonably homogenous in terms of knowledge, experience, position, and sector, (iii) the trainers receive an adequate briefing on what to expect with respect to business conditions in the country and the trainees' backgrounds, (iv) consideration is given to increasing the use of case studies, and (v) for company visit programme components, sufficient time is allowed and the arrangements provide for trainees to visit companies with operations comparable to their own.* Notwithstanding the good results of the training courses, the results might have been even better had more attention been paid to these issues. Moreover, to facilitate the EBRD's drawing on its institutional experience, the Bank should involve the Banking Department's Education & Training unit for curriculum design, the Financial Institutions Team for training programmes targeting bank staff, and Bank-supported training facilities in comparable countries. (See Chapter 4.1.)

9. Overseas training. *Before agreeing to fund training outside the host country, the EBRD should satisfy itself that the benefits are likely to justify the significantly higher costs and lower number of persons who can receive training.* Although the training courses have yielded good results, the overseas training courses have cost far more and served far fewer trainees than the domestic courses. In some cases, arranging the training in Ulaanbaatar may not have been feasible (for example, the visits to Taiwanese SMEs); nevertheless, in all cases the EBRD needs to consider the most cost effective approach for providing training. In some situations, this might include skipping field visits, bringing expatriate trainers to Mongolia or even developing local training capabilities. (See Chapter 4.1.)

10. Translation. *The EBRD should require translation of consultants' reports into Mongolian.* Many Mongolians can read English, but others cannot. Mongolian officials who cannot read English did not have access to the information, analysis and recommendations provided in several important MCF-funded reports that were not translated.

11. Cost sharing. *The EBRD should seek to recover a portion of the cost of TC assignments benefiting private companies.* Whether one looks at the MCF's allocation of €850,000 to cover the cost of two expatriate advisers for one of Mongolia's 17 commercial banks or it's spending nearly €5,000 per SME for training in Taiwan, the subsidies inherent in the provision of free assistance to some players but not others are

[42] The EBRD retained the right to withhold its approval for the second phase of this TC assignment if the sector team considered that the consultant had provided advice to further their own interests. Still, the EBRD should not put itself in a position where it has to carry the responsibility for making this sort of judgment.

inconsistent with market principles. Seeking to recover the full cost of the services provided may not be realistic, but recovering some share of the costs would reduce the subsidies to individual businesses, generate funds permitting the MCF and similar funds to undertake additional TC operations and might encourage businesses to be more selective in deciding whom to send for training courses.

12. Flexibility. The *EBRD should watch for unexpected developments and be prepared to adjust the consultants' terms of reference when appropriate.* In two cases, the MCF showed commendable flexibility. In the telecommunications assignment, the consultants' inception report argued that the privatisation approach envisaged by the terms of reference would not achieve the government's objectives of increasing competition, encouraging further investment, and improving service. They suggested an alternative approach, and the MCF wisely accepted this change. In the local commercial bank assignment, changes in the bank's operations between the initial approval and the time the assignment actually started called for modifying the terms of reference. Again, the MCF wisely negotiated revisions to meet the needs of both the bank and the EBRD.

13. Collaboration with other donors. *The EBRD should ensure adequate collaboration with other donors.* The Bank may not be able to rely solely on host governments, which may lack the experience to coordinate the work of multiple donors working in a particular sector, and it cannot rely on consultants on fixed-price contracts, who have an interest in limiting the time they spend on specific assignments. When multiple donors are active in a particular sector, the EBRD needs to participate actively and regularly in meetings with the other donors. It has to ensure that all the conditions for success are being addressed and that conflicts are resolved at an early stage. In the power-sector restructuring assignment, EBRD staff participated only sporadically in donor meetings, and conflicting donor advice on key issues may delay progress or result in sub-optimal solutions.

Appendix 1

EBRD's & MCF's MANDATES

EBRD Establishing Agreement	Proposal for the Use of Cooperation Funds for EBRD Activities in Mongolia
Article 1. Purpose	
…to foster the transition towards open market-oriented economies….	**Section A(1)** …to foster the process of transition to a market economy….
…to promote private and entrepreneurial initiative….	**Section A** …to promote private and entrepreneurial initiative….
Article 2. Functions	
…assist the recipient member countries to implement structural and sectoral economic reforms, including demonopolization, decentralization and privatization, to help their economies become fully integrated into the international economy….	**Section A** …to implement structural and sectoral economic reforms. **Section B** …implementing economic and legal reforms (in particular those aimed at creating an open, fair and transparent investment climate and at building stronger institutions)….
(i) …the establishment, improvement and expansion of productive, competitive and private sector activity, in particular small and medium-sized enterprises;	**Section B** …supporting the establishment, improvement and expansion of private sector activity (in particular small and medium sized enterprises)….
(ii) to mobilize domestic and foreign capital and experienced management to the end described in (i);	Not specifically mentioned.
(iii) to foster productive investment…where that is necessary to support private and entrepreneurial initiatives, thereby assisting in making a competitive environment and raising productivity, the standard of living and conditions of labor;	**Section B** …supporting the establishment, improvement and expansion of private sector activity….
(iv) to provide technical assistance for the preparation, financing and implementation of relevant projects;	**Section B** …supporting the establishment, improvement and expansion of private sector activity….
(v) to stimulate and encourage the development of capital markets;	Not specifically mentioned.
(vi) to give support to sound and economically viable projects involving more than one recipient member country;	Not relevant.
(vii) to promote in the full range of its activities environmentally sound and sustainable development;	Not specifically mentioned.
(viii) to undertake such other activities and provide such other services as may further these functions.	Not specifically mentioned.

Appendix 2

MCF - Technical Cooperation Activities
Areas Initially Identified, Indicative Program & Operations Funded

Areas Identified by January 2001 Fact-finding Mission[1]	**Indicative Utilisation of the MCF**[2]	**TC Operations Actually Funded by MCF**[3]
Financial Sector	Develop skills in lending to micro and small enterprises through a local commercial bank.	The commercial local bank's micro credit advisors; Bankers' Training Programme; Training on International Banking Operations
Private Sector Development. EBRD's TurnAround Management Programme (TAM) and Business Advisory Services Programme (BAS) to support privatized medium-sized enterprises.	Business advice: TAM and BAS.	TAM, but not BAS.
Mining. Environmental due diligence on the more promising placer gold mines. Consolidation of existing geological information into a report in English that would be available to western exploration companies.	Geological data base, environmental review of mining facilities.	None
	Other environmental support: Environmental Monitoring & Assessment Programme.	None
Infrastructure. Regulatory reform in connection with privatization plans, a new telecommunications law, and help in setting up an independent regulator for telecommunications	Telecommunications regulation and restructuring. Energy sector regulation.	Power sector restructuring: private sector participation; Telecoms: privatization options. EBRD has not addressed the issue of regulatory reform in these sectors but is now considering a TC project for advising on regulations in the telecoms sector.
Legal transition. Telecommunications regulation, a study on contractual and tax regime for foreign investors in mining sector.	Initial assessment, concessions legal reform, implementation of tax laws for foreign direct investment.	Corporate governance & secured transactions. EBRD is considering assistance on telecommunications regulation.
		MIAT
		SME Management Training
		Downstream Petroleum: Refining
		Master Plan for Civil Aviation

[1] Proposal for the Use of Cooperation Funds for EBRD Activities in Mongolia, BDS01-29 (Final), 19 April 2001, Annex 1.
[2] *Op. cit.*, Annex 3.
[3] See Appendix 2, below.

Appendix 3

Operation Performance Ratings

	Complete	Overall Performance Rating	Overall Transition Impact	Project Financial Performance	Company Performance	Fulfillment of Objectives	Environmental Performance of Sponsors & Bank	Extent of Environmental Change	Additionality	Bank Handling
Improving Perf. of Real Sector Enterprises										
TAM	No	Too early	Too early	Too early	Too early	Too early	Too early	No information	Ver. at large	Too early
MIAT	11/04	Partly Successful	Marginal	Excellent	Unsatisfactory	Satisfactory	Good	Good	Ver. at large	Unsatisfactory
SME Management Training	12/04	Successful	Satisfactory	Excellent	Too early	Good	n.a.	n.a.	Ver. at large	Good
Improving Performance of Fin. Institutions										
A local commercial bank Micro Credit Advisors	No	Too early	Too early	n.a.	Too early	Too early	Too early	n.a.	Ver. at large	Too early
Bankers' Training Programme	12/04	Successful	Good	n.a.	n.a.	Satisfactory	n.a.	n.a.	Ver. at large	Marginal
Training in International Banking	11/04	Successful	Good	n.a.	n.a.	Good	n.a.	n.a.	Ver. at large	Good
Privatization										
Power Sector	No	Too early	Too early	n.a.	n.a.	Too early	Too early	Too early	Ver. at large	Too early
Telecommunications	No	Too early	Too early	n.a.	n.a.	Too early	n.a.	n.a.	Ver. at large	Too early
Downstream Petroleum: Refining		Unsuccessful	Unsatisfactory	n.a.	n.a.	Unsatisfactory	Unsatisfactory	n.a.	Ver. at large	Unsatisfactory
Corp. Governance & Secured Transactions	5/04	Successful	Satisfactory	n.a.	n.a.	Good	n.a.	n.a.	Ver. at large	Good
Master Plan for Civil Aviation	1st half 2004	Successful	n.a.	n.a.	n.a.	Good	Satisfactory	n.a.	Ver. at large	Good

Rating scales:

- Overall Transition Impact: Excellent, Good, Satisfactory, Marginal, Unsatisfactory, Negative
- Project Financial Performance, Company Performance, Fulfillment of Objectives, Environmental Performance of Sponsors & Bank, Bank Handling: Excellent, Good, Satisfactory, Marginal, Unsatisfactory, Highly Unsatisfactory
- Extent of Environmental Change: Outstanding, Substantial, Some, None, Negative
- Additionality: Verified in all Respects, Verified at Large, Verified in Part, Not Verified)
- Overall Performance Rating: Highly Successful, Successful, Partly Successful, Unsuccessful

Appendix 4

Transition Impact Ratings

	OVERALL TRANSITION IMPACT RATINGS	SHORT-TERM VERIFIED IMPACT	LONGER-TERM IMPACT POTENTIAL	RISK TO POTENTIAL TRANSITION IMPACT
Improving Performance of Real Sector Enterprises				
TAM	Too early	Too early	Too early	Too early
MIAT	Marginal	Marginal	Satisfactory	High
SME Management Training	Satisfactory	Too early	Satisfactory	Medium
Improving Performance of Financial Institutions				
Local commercial bank;s Micro Credit Advisors	Too early	Too early	Too early	Too early
Bankers' Training Programme	Good	Good	Good	Low
Training in International Banking	Good	Good	Good	Low
Privatization				
Power Sector	Too early	Too early	Too early	Too early
Telecommunications	Too early	Too early	Too early	Too early
Downstream Petroleum: Refining	Negative	Negative	Negative	Medium
Corporate Governance	Satisfactory	Satisfactory	Satisfactory	Medium
Master Plan for Civil Aviation	Not applicable	Not applicable	Not applicable	Not applicable

Rating system: The transition impact is measured at the industry level and the level of the economy as a whole. The Overall Rating is not an arithmetical mean of individual ratings but rather gives greater weight to verified impact than to potential impact. The system uses the following benchmarks:

- Excellent. The project achieved significant progress toward all major relevant transition impact objectives. Best practice was achieved in one or more areas.
- Good. The project achieved significant progress toward all major relevant transition impact objectives, possibly with minor shortcomings.
- Satisfactory. The project achieved acceptable progress toward a majority of relevant impact objectives, but did not make acceptable progress towards one major objective.
- Marginal. The project failed to achieve acceptable progress towards a majority of relevant transition impact objectives. However, progress towards at least one major objective was acceptable.
- Unsatisfactory. The project failed to achieve acceptable progress toward any of its major relevant transition impact objectives.
- Negative. The project failed to achieve acceptable progress toward any of its major relevant transition impact objectives and even had in some cases a negative effect.