

**Third Party Evaluator's Opinion on
Baganur and Shivee-Ovoo Coal Mine Development Project (I)(II)**

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Criteria-1 Relevance

Currently, the power plants use 95 percent of total energy consumption, and 70 percent of residents in the Ulaanbaatar city consume coal as a source of heating. During the project implementation, coal mining sector had grown. Along with that, power supply had comparatively increased and stabilized. Moreover, government was highly concerned about the coal mining sector's development and started establishing new mines. Tavan togloi coalfield will not only create an opportunity to meet the coal demands in Mongolia, but the demands for export. Yet, it does not mean decreasing of relevance of the Baganuur and Shivee-Ovoo mines. These mines were rather contributing to the increase of production capacity and effectiveness. Air pollution and sharp increase in fuel price had influenced to the change of the coal mining policy. Therefore, priorities are focused on production of smokeless fuel, extraction of benzene, lubricants from coal. As a result, it was expected to reduce air pollution and to promote coal production.

Criteria-2 Effectiveness

Since the implementation of the projects at Baganuur and Shivee-Ovoo mines, their productivity has been increasing absolutely. However, this did not seem to guarantee improvement of effectiveness and efficiency. It might be linked to the administration and organization of the companies owing these mines. Both mine companies are public enterprises. Therefore, price evaluation for coal is regulated by the state/government. According to some surveys or statistics, payments between and/or from public enterprises basically conclude in inefficiency. This autumn, miners had gone on strike. Consequently, the government made a decision to increase the coal price a little.

If the share of public enterprises reduces, and market oriented management and organizational structure are applied, efficiency and effectiveness will increase subsequently. As a result of the projects, technical capability had adequately increased. Therefore, in order to enhance efficiency and effectiveness, market price system should be introduced, and then privatization should be proceeded to further increase capacity and skills of the employees.