

# Facilitating Transport and Trade in Mongolia

- Landlocked **Mongolia** is the most sparsely populated country in the world. Because of the large geographic area and low population density, its transport system is basic.
- Long-term growth and living standards depend on how well Mongolia can seize opportunities and integrate its **economy** with those of its neighbors. Adequate transport, trade, and communication facilities are vital, and efficient access to seaports or gateways is key to increasing **trade competitiveness**.
- ADB has led international donor efforts in **transportation** with policy and project-level interventions. A recent independent **evaluation** rated its performance a success.

## Background

The challenges that Mongolia faces spring from its **geography** and its **transition** to a market economy. **Mongolia** joined the Asian Development Bank (ADB) in **1991**. From the onset, ADB aimed to support and accelerate the transition process, and country strategies and programs during the 1990s identified roads as important for **poverty reduction** and **regional cooperation and integration**.

As of 31 December 2007, ADB had approved five **loans** in the amount of \$147.1 million (about 22% of total lending) and 12 **technical assistance grants** worth \$6.4 million for transport (since 1992) and trade facilitation (since 2000).

In 2007, the Operations Evaluation Department in ADB conducted a **sector assistance program evaluation**<sup>1</sup> to inform the forthcoming **country assistance program evaluation**, and planned **country partnership strategy**, 2009–2013. The study focused on roads and trade facilitation, but also covered railways and civil aviation.

## Summary of Findings

**Transport.** The study examined the **Roads Development, Second Roads Development, Regional Road Development, Ulaanbaatar Airport**, and **National Air Navigation Development** loans. The overall rating of ADB's program in the transport sector

was "successful." The program was considered for relevance, effectiveness, efficiency, impact, and sustainability. The assessment was based on the sector strategies and the way the strategies were implemented with the loan (and 12 associated technical assistance) projects. The principal finding was that limited capacity in the Government, and in the private sector, continues to affect the timely completion of projects.

**Trade Facilitation.** ADB's portfolio in trade facilitation is young. The ongoing **Customs Modernization** loan was rated for relevance. However, since four technical assistance projects had been completed, these were rated for relevance, effectiveness, efficiency, sustainability, and impact. The overall rating of ADB's program in the trade facilitation sector was "successful." The main finding was that there had been insufficient harmonization among international aid agencies working in Mongolia.

**Lessons Identified.** Lessons were identified at both the policy and project levels. The transport and trade facilitation sectors have witnessed a slowdown in terms of policy development, as well as in the translation of policy into action. Policy-level lessons included (i) the need to assimilate potential future growth in the respective strategies of the Government and ADB; (ii) the need for consistent policy dialogue to draft and implement a transport sector policy, reliable road maintenance regime, and institutional strengthening

policy; (iii) government ownership for making and sustaining institutional changes in the country requires champions and coherent support in the country; and (iv) political will for policy development and the associated reform agenda are requisites for which ADB assistance cannot serve as a substitute for effective aid agency coordination.

ADB has contributed to transport sector development with financial support. It could add further value by providing assistance for policy development, strategy formulation, and innovative approaches in project design. Project-level lessons for the future include (i) continue along the lines of regional cooperation and trade assistance through initiatives such as the **Central Asia Regional Economic Cooperation** program initiated in 1997, (ii) provide better value addition through innovations in project design and technical assistance projects, and (iii) bring in international best practices and ideas for improving the road network and institutional capacity appropriate in the local context.

### Recommendations

The study recommended that ADB should continue to be involved in the transport and trade facilitation sectors in Mongolia and suggested ways to formulate future assistance.

#### The Transport Sector

- **Provide Advice on Policy Development in Areas such as Institutional Strengthening.** The formulation and timely adoption of a national transport policy is a major challenge for the Government and international aid agencies in the short term.
- **Assist in Strengthening the Road Maintenance Regime.** The sustainability of transport infrastructure is crucial in the Mongolian context. The Government needs to develop its road maintenance regime based on needs, achieve a balanced distribution of public funds, identify alternative sources of finance including the private sector, and improve cost recovery. ADB should support the Government in enabling these changes.
- **Strengthen Inter-agency Coordination.** ADB needs to work closely with the Government in identifying and implementing institutional changes to streamline operational responsibilities among the

various government departments, as well as to strengthen in-house human resources capabilities.

- **Plan Investments in the Transport Sector.** The main challenge that cuts across all the above three recommendations relates to the question of what should be the level of investment, given the limited demand in terms of traffic. ADB needs to continue to work closely with the Government to adopt a stepped approach that assesses the development and economic needs of the country and balances these against the available funding from public and private sources. This stepped approach comprises developing rolling investment plans of 4–5 year durations, supported by specific feasibility studies.

#### The Trade Facilitation Sector

- **Improve Transport and Trade Logistics.** Responding to constraints to trade requires a combination of physical and nonphysical interventions. The physical constraints that should be addressed by ADB in conjunction with other development partners relate to rail infrastructure to facilitate trade movements, storage infrastructure, road infrastructure linking the border points with economic centers, and port infrastructure at Tianjin in the People's Republic of China.
- **Facilitate Dialogue for Customs Harmonization and Border Formalities.** Resolution of nonphysical constraints needs a broader action plan. To start with, ADB needs to facilitate dialogue between Mongolia and its neighbors, such as the People's Republic of China, in the context of regional cooperation and integration initiatives relating to the harmonization of the customs and product inspection standards, as well as the movement of vehicles across the border.

#### Feedback

When these *Learning Curves* were prepared, **ADB Management's Response** and the **Chair's Summary of the Development Effectiveness Committee Discussions** were not available for disclosure to the public. The study was completed in July 2008.

<sup>1</sup> ADB. 2008. *Sector Assistance Program Evaluation on Transport and Trade Facilitation—Potential for Better Synergies in Mongolia*. Manila. Available: <http://www.adb.org/documents/reports/sape/mon/in206-08.pdf>