



<b>1. Project Data:</b>		<b>Date Posted :</b> 08/12/2002	
<b>PROJ ID:</b> P004342		<b>Appraisal</b>	<b>Actual</b>
<b>Project Name:</b> Transport Rehabilitation Project.	<b>Project Costs (US\$M)</b>	36.7	30.66
<b>Country:</b> Mongolia	<b>Loan/Credit (US\$M)</b>	30	29.92
<b>Sector(s):</b> Board: TR - General transportation sector (42%), Railways (36%), Roads and highways (10%), Other industry (9%), Central government administration (3%)	<b>Cofinancing (US\$M)</b>	0	0
<b>L/C Number:</b> C2615			
	<b>Board Approval (FY)</b>		94
<b>Partners involved :</b>	<b>Closing Date</b>	06/30/1999	09/30/2001

<b>Prepared by :</b>	<b>Reviewed by :</b>	<b>Group Manager :</b>	<b>Group:</b>
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**2. Project Objectives and Components**

**a. Objectives**

The original objectives of the project were to:

- (a) reverse the decline in quality and quantity of transport services in railways, urban transport, trucking and roads;
- (b) strengthen sectoral institutional capacity; and
- (c) to contribute to macroeconomic reforms through complementary measures at the sectoral level, such as the implementation of a transport sector policy and promotion of the owner-operated concept in trucking.

The objective of increasing accessibility to outlying regions and markets was added to the original three objectives when the project was restructured.

**b. Components**

The project consisted of four sectoral sub-projects (railways, urban transport, road freight services and roads), each with physical and technical assistance components, with sector policy and project implementation support. Specifically, the project was to focus on: (a) rehabilitation of the vehicle fleet in railways, urban transport and trucking industry; (b) rehabilitation of paved roads; (c) preparation for restructuring of selected transport enterprises; and (d) policy advice, technical assistance and training related to sectoral agencies and private trucking operators.

The main components of the project are:

- Railways - US\$9.52 million (31% of total project cost)
- Urban Transport - US\$9.82 million (32% of total project cost)
- Roads - US\$4.62 million (15% of total project cost)
- Sector and Project Implementation Support - US\$0.93 million (3% of total project cost)
- Civil works (added during implementation) - US\$5.77 (19% of total project cost)

**Revised Components:**

The planned restructuring of the trucking industry faced some impediments during implementation. Few of the original large carriers survived the privatization process and those that did were not in the position to amortize a credit. Most of the trucks passed to individual owner-operators after privatization and these were also unable to fund credits. At the same time following liberalization, new operators were entering and competing in the trucking market with new vehicles despite high loan charges, as total demand was falling. The potential loans to carriers from the commercial banks, on-lent from the Credit, failed to attract demand as the interest rate was considered excessive by existing operators who were more aware of the financial risk than the new operators. For these reasons, the Government and IDA agreed mutually to drop this sub-project. The unutilized Credit balance was reallocated to

finance spot improvement of the unpaved road between Kharkhorin, Tsetserleg and Tosntsongel and to finance the provision of road maintenance equipment and consultant services.

#### **c. Comments on Project Cost, Financing and Dates**

The actual cost of the project is US\$30.66 million compared to an appraisal estimate of US\$36.7 million. About US\$29.9 million of the credit was disbursed at project closing. The project closed on September 30, 2001, two years and three months behind schedule.

#### **3. Achievement of Relevant Objectives:**

1. The objective of reversing the decline in quality and quantity of transport services was partially achieved.
  - The project was successful in arresting the deterioration in railways services through the rehabilitation of 22 locomotives, improvement in the utilization of MR's (Mongolia Railways) assets and by reduction in operating costs. At the peak of its operation, the number of locomotives in service increased by 30%, coaches by 43%, and wagons by more than 25%. Better utilization was evidenced by the increase in average locomotive-km per day from 397 to 496. Freight traffic growth in net-tons and net-ton-km, which averaged about 2.5% annually, also increased between 1998 and 2000 at annual average rates of 12% and 22% respectively.
  - Construction of 88 km of roads has substantially improved the accessibility to markets.
  - The project was not successful in increasing the frequency of bus service and reducing the passenger waiting time. A total of 44 buses and 9 trolleys were purchased, however, by the end of the project 11 of the 44 buses and all of the 9 trolley buses were out of service. However, several thousand minibuses were introduced (using non-project funds) and total number of passengers has increased.
2. The objective of strengthening sectoral institutional capacity was largely achieved.
  - The project, along with other donors, supported the Department of Roads (DoR) in: (a) preparing a Road Action Plan; (b) drawing up revised specifications for sealed roads; (c) collecting basic data for prioritizing paved road maintenance; and (d) upgrading accounting and management practices.
  - Significant progress was made in training the Ministry of Infrastructure Development (MID) staff in management of the transport sector. The MID's Sectoral Policy Action Plan has encouraged private operators to enter the inter-urban passenger, road trucking and urban transport markets. Under the project, the Ministry staff and private contractors were exposed to competitive bidding procedures and to more rigorous contract conditions.
  - A Restructuring Plan, a Business Plan and a Management Information System were developed for MR together with an action plan to guide MR in their implementation. Some of the recommendations have been implemented. MR staff has been trained in modern management methods.
  - The project was not successful in strengthening the capacity of urban bus companies.
3. Significant progress was made in implementing sector policy reforms contributing to macroeconomic reforms. In August 1996, MR was freed from price controls and the government also lifted the ceiling on the retail price of electricity generated from coal. This resulted in an increase of 150% in the rail tariff for coal transport and a smaller increase for other products. Subsidies to government owned road transport operators were eliminated and the subsidy for domestic air services was significantly reduced. However, subsidies to the municipality of Ulaanbaatar for urban bus operations have remained.
4. The objective of increasing the accessibility to outlying regions and markets was achieved through spot improvements to the road between Kharkhorin and Tosontsengal. As a result, vehicle speeds have increased from about 25km/hr to 60 km/hr. Traffic on the road has increased by 17% on one section and by 22% on the other, compared with increases elsewhere on the network of less than 5%.

#### **4. Significant Outcomes/Impacts:**

- The project provided critical inputs for the rehabilitation of priority railways and roads network, thereby arresting the deterioration in quality of railway services and improving the condition of the roads network.
- The project substantially improved the capacity of MR to transport coal to maintain electricity supplies and export products.
- The completion of the spot improvement and road maintenance increased accessibility of social services and markets for the people living in outlying regions.
- Significant reduction in public subsidies.

#### **5. Significant Shortcomings (including non-compliance with safeguard policies):**

The bus companies failed to implement the recommendations of the consultants appointed under the project. As a result, bus companies have been unable to adapt to rapidly increasing competition from the minibus operations. The number of passengers using the municipally operated buses by the end of the project was only 44% of the 1994 level.

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
<b>Outcome :</b>	Satisfactory	Satisfactory	
<b>Institutional Dev .:</b>	Substantial	Substantial	
<b>Sustainability :</b>	Likely	Non-evaluable	The sustainability of project benefits is non-evaluable as the financial situation of the Department of Roads, Mongolian Railways and Municipality of Ulaanaatar is still very weak. However, to promote sustainability, the government is proposing further reforms: (i) restructuring of Mongolian railways; (ii) Road Fund reforms under the Asian Development Bank project.
<b>Bank Performance :</b>	Satisfactory	Satisfactory	
<b>Borrower Perf .:</b>	Satisfactory	Satisfactory	
<b>Quality of ICR :</b>		Satisfactory	

**NOTE:** ICR rating values flagged with '\*' don't comply with OP/BP 13.55, but are listed for completeness.

### 7. Lessons of Broad Applicability:

The key lesson that emerges from this project is that reforming the urban transport sub-sector is very complex mainly because of the competition large bus operators face from the minibuses. The Bank needs to develop a sustainable urban transport policy for the country with participation from all stakeholders.

### 8. Assessment Recommended? Yes No

**Why?** (i) To assess the sustainability of the project benefits; and (ii) to draw lessons from the experience of the policy and institutional reforms that were implemented under this project.

### 9. Comments on Quality of ICR:

The quality of ICR is satisfactory. It covers all the relevant and important issues relating to the implementation experience and the outcome of the project.