



Report and Recommendation of the President to the Board of Directors

Project Number: 46315-001
October 2015

Proposed Loan Mongolia: Regional Upgrades of Sanitary and Phytosanitary Measures for Trade Project

Distribution of this document is restricted until it has been approved by the Board of Directors. Following such approval, ADB will disclose the document to the public in accordance with ADB's Public Communications Policy 2011.

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 23 September 2015)

Currency unit	–	togrog (MNT)
MNT1.00	=	\$0.0005
\$1.00	=	MNT1,991.50

ABBREVIATIONS

ADB	–	Asian Development Bank
BCP	–	border crossing point
CAREC	–	Central Asia Regional Economic Cooperation
GASI	–	General Agency for Specialized Inspection
IMS	–	inspection management system
LIMS	–	laboratory information management system
PAM	–	project administration manual
PSC	–	project steering committee
SOP	–	standard operating procedure
SPS	–	sanitary and phytosanitary
VABA	–	Veterinary and Animal Breeding Agency
WTO	–	World Trade Organization

NOTES

In this report, “\$” refers to US dollars.

Vice-President	S. Groff, Operations 2
Director General	A. Konishi, East Asia Department (EARD)
Director	Y. Qian, Public Management, Financial Sector and Regional Cooperation Division, EARD
Team leader	C. Lozano, Regional Cooperation Specialist, EARD
Team members	F. Connell, Principal Counsel, Office of the General Counsel D. Diaz, Senior Operations Assistant, EARD M. De Castro, Associate Project Analyst, EARD A. Jigjidsuren, Senior Social Sector Officer, Mongolia Resident Mission, EARD J. Procak, Regional Cooperation Specialist, EARD
Peer reviewer	L. Ding, Principal Trade Specialist, Southeast Asia Department

In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

CONTENTS

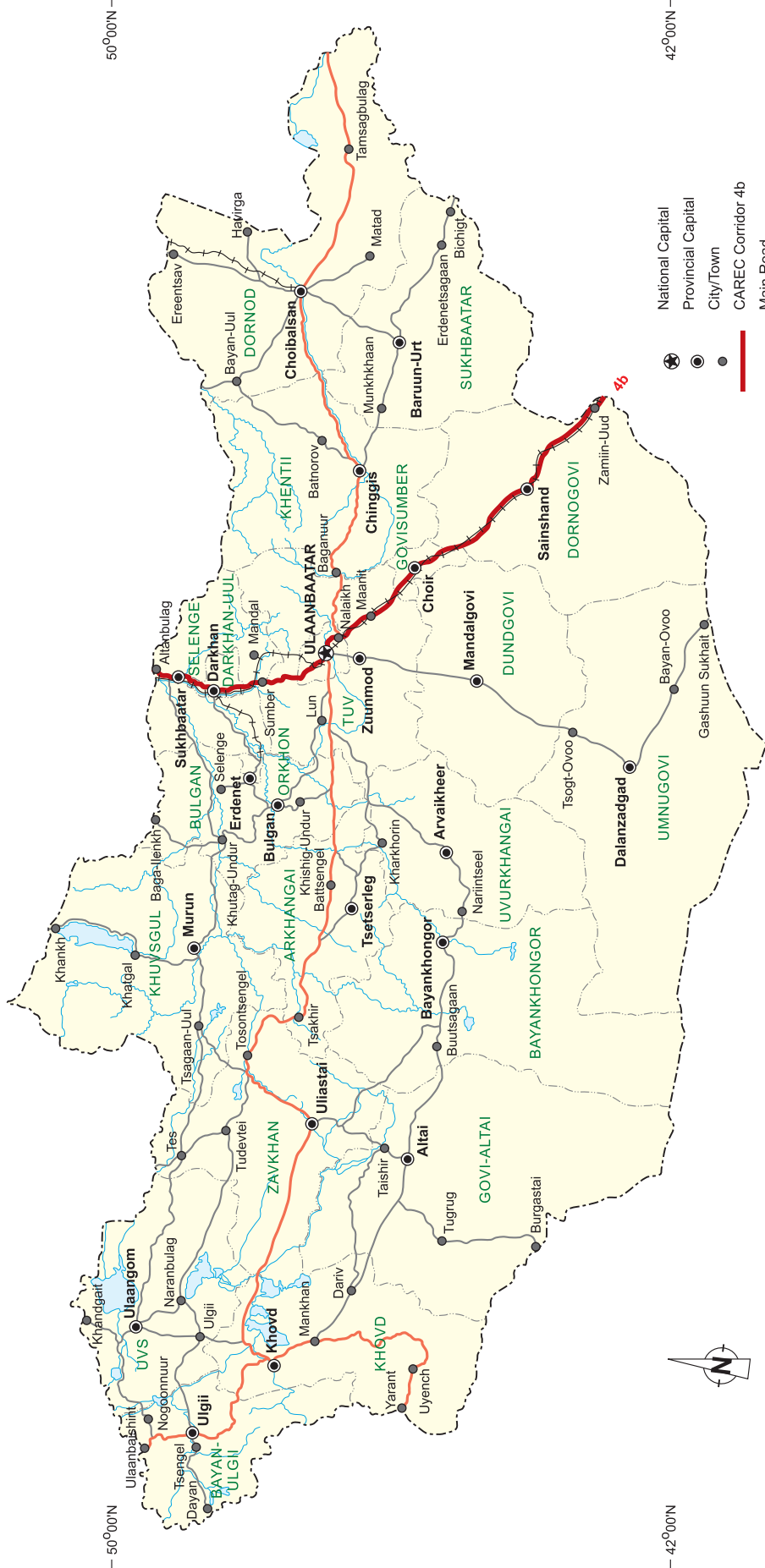
	Page
PROJECT AT A GLANCE	
MAP	
I. THE PROPOSAL	1
II. THE PROJECT	1
A. Rationale	1
B. Impacts and Outcome	4
C. Outputs	4
D. Investment and Financing Plans	5
E. Implementation Arrangements	5
III. DUE DILIGENCE	6
A. Technical	7
B. Economic and Financial	7
C. Governance	8
D. Poverty and Social	8
E. Safeguards	9
F. Risks and Mitigating Measures	9
IV. ASSURANCES AND CONDITIONS	10
V. RECOMMENDATION	10
APPENDIXES	
1. Design and Monitoring Framework	11
2. List of Linked Documents	13

PROJECT AT A GLANCE

1. Basic Data		Project Number: 46315-001	
Project Name	Regional Upgrades of Sanitary and Phytosanitary Measures for Trade Project	Department /Division	EARD/EAPF
Country Borrower	Mongolia Ministry of Finance	Executing Agency	Office of the Deputy Prime Minister of Mongolia
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Industry and trade	Trade and services		15.00
		Total	15.00
3. Strategic Agenda	Subcomponents	Climate Change Information	
Inclusive economic growth (IEG) Regional integration (RCI)	Pillar 1: Economic opportunities, including jobs, created and expanded Pillar 2: Trade and investment	Climate Change impact on the Project	Medium
4. Drivers of Change	Components	Gender Equity and Mainstreaming	
Governance and capacity development (GCD) Private sector development (PSD)	Institutional development Conducive policy and institutional environment Public sector goods and services essential for private sector development	No gender elements (NGE)	✓
5. Poverty Targeting		Location Impact	
Project directly targets poverty	No	Rural Urban	Medium Medium
6. Risk Categorization:	Low		
7. Safeguard Categorization	Environment: B Involuntary Resettlement: C Indigenous Peoples: C		
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		15.00	
Sovereign Project loan: Asian Development Fund		15.00	
Cofinancing		0.00	
None		0.00	
Counterpart		1.25	
Government		1.25	
Total		16.25	
9. Effective Development Cooperation			
Use of country procurement systems		Yes	
Use of country public financial management systems		Yes	

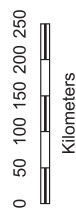
MONGOLIA

REGIONAL UPGRADES OF SANITARY AND PHYTOSANITARY MEASURES FOR TRADE PROJECT



- National Capital
- Provincial Capital
- City/Town
- CAREC Corridor 4b
- Main Road
- Provincial Road
- Railway
- River
- Provincial Boundary
- International Boundary

Boundaries are not necessarily authoritative.
 CAREC = Central Asia Regional Economic Cooperation



This map was produced by the cartography unit of the Asian Development Bank. The boundaries, colors, denominations, and any other information shown on this map do not imply, on the part of the Asian Development Bank, any judgment on the legal status of any territory, or any endorsement or acceptance of such boundaries, colors, denominations, or information.

111°00'E

96°00'E

50°00'N

50°00'N

42°00'N

42°00'N

111°00'E

96°00'E

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed loan to Mongolia for the Regional Upgrades of Sanitary and Phytosanitary Measures for Trade Project.¹

2. Improvement of sanitary and phytosanitary (SPS) measures in Mongolia in compliance with the World Trade Organization (WTO) agreement on the application of SPS measures is an essential prerequisite for Mongolia to increase agriculture and food trade and diversify its economy.² The proposed project will address this issue through upgrading of laboratories and inspections facilities, strengthening of the inspection management system (IMS), and aligning SPS controls and inspections with international standards.

II. THE PROJECT

A. Rationale

3. **Development challenges.** Agriculture accounted for 14% of Mongolia's gross domestic product and 28% of employment in 2014, and remains the backbone of the rural economy in Mongolia. Agriculture is dominated by livestock husbandry, with meat and wool production accounting for 80% of the total output. Increased agricultural value-added from 2012 to 2014 has been important in poverty alleviation because the incomes of the most economically vulnerable people are closely tied to agriculture.³ Agricultural production is labor-intensive and thus an important source of employment in rural areas. About 85% of the rural population is dependent on livestock. This is particularly the case for herders, who account for one-third of the country's population, and for whom livestock is the sole income source. The processing of agricultural products also creates critical employment opportunities for migrants in urban areas.

4. Expanding and modernizing agriculture is essential to bolster rural incomes and reduce poverty and income inequality in Mongolia. A productive primary sector is also critical to diversification of the country's limited sources of growth. Economic diversification stands as Mongolia's biggest medium-term challenge, and is vital for employment generation and to make economic growth sustainable and more inclusive.

5. Mongolia has an estimated 52 million head of livestock, and just 3 million inhabitants, and there is excellent potential to expand animal husbandry. The country is well-endowed and located to serve northeast and central Asian markets, where demand for meat and milk is increasing rapidly. Currently only 1.5% of the meat produced in Mongolia is exported. Mongolia's agrifood export potential is hampered by poor SPS standards. For instance, lack of adequate controls for infectious diseases renders the livestock sector vulnerable to disease outbreaks, and the incidence of infectious animal and foodborne diseases, such as brucellosis and equine infectious anemia, remains high. Mongolia's trading partners frequently impose temporary bans on importing live animals and animal products from Mongolia because of contagious animal disease outbreaks.

¹ The design and monitoring framework is in Appendix 1.

² The WTO Sanitary and Phytosanitary Agreement sets out the basic rules for food safety and animal and plant health standards (international standards). It allows countries to set their own standards, but regulations must be based on science and an appropriate assessment of risks.

³ Agricultural value-added increased by an annual average of 18.2% during 2012–2014.

6. The cost of trade is high because of cumbersome border procedures, further exacerbating the situation. The World Bank ranks Mongolia 135th out of 160 countries in the Logistic Performance Index 2014, and Mongolia has one of the lowest scores for customs clearance and border crossing.⁴

7. These factors deprive the country of the opportunity to diversify exports and insulate the economy from swings in mineral prices. Strengthening SPS measures in line with international standards while facilitating customs and border-crossing procedures is essential to expand agriculture production and sustain inclusive growth and foster economic diversification.

8. SPS system weaknesses increase trade costs, and time required to meet export requirements. A study conducted by the Mongolia National Chamber of Commerce and Industry in 2013 found that 4 days were needed to obtain veterinary and sanitary certificates when exporting meat. Obtaining sanitary permits took up to 41 days when importing sugar and up to 48 days when importing vegetable oil.⁵

9. Two main institutions in Mongolia are involved in the application of SPS measures: (i) the General Agency for Specialized Inspection (GASI), reporting to the Office of the Deputy Prime Minister, which is responsible for inspecting export and imports of food and products of animal and plant origin, and for border inspection generally; and (ii) the Veterinary and Animal Breeding Agency (VABA) under the Ministry of Food and Agriculture, which is responsible for disease prevention and control, laboratory services, and accrediting and licensing veterinarians. Given Mongolia's vast territory, both institutions are supported by a central laboratory that is equipped with modern technology and a network of laboratories located at border crossing points (BCPs) and 13 *aimags* (provinces).

10. **Sanitary and phytosanitary measures.** From 2004 to 2014, Mongolia significantly improved its SPS system, including the SPS legislation, standards, inspection procedures, and laboratory network. In particular, the country has adopted a new Food Law and a new Law on Ensuring Food Safety, which introduced modern principles and approaches in the area of food safety. The capacity of many SPS laboratories has been upgraded with the assistance of bilateral and multilateral development partners, such as the World Bank, the International Fund for Agricultural Development, the European Union, and the United States Agency for International Development.⁶ With the assistance of the International Finance Corporation, the government has developed a framework for risk-based SPS control over imports. More than 5,500 products have been classified as low, medium, or high risk. Low-risk goods require only a check of documentation; medium-risk products require a documentation check and inspection; and high-risk goods a documentation check, inspection, and laboratory testing.⁷

11. Despite these improvements, Mongolia's SPS system has the following weaknesses:

- (i) Many laboratories lack the facilities, equipment, and/or human resources needed to perform their functions properly. The overall capacity of the laboratory network is insufficient to establish an appropriate level of protection against internal and external risks to public, animal, and plant health. In addition, SPS control at

⁴ World Bank. 2014. *Logistics Performance Index. Global Rankings 2014*.
<http://lpi.worldbank.org/international/global>.

⁵ Mongolian National Chamber of Commerce of Industry. 2013. *The Roadmap of Doing Business in Mongolia*. Ulaanbaatar.

⁶ Asian Development Bank (ADB). 2015. *Promoting Cooperation in Sanitary and Phytosanitary Measures for Central Asia Regional Economic Cooperation*. Consultant's report. Manila (TA 8386-REG).

⁷ World Bank. *Mongolia: Border Inspection Report*. Unpublished.

BCPs is generally inadequate. BCPs lack facilities for disinfection of vehicles and unloading and quarantine of live animals and products of animal origin. Inspectors do not have special equipment for examination of live animals and sampling of pathological material (footnote 6). Some BCPs are located far away from and/or have poor transport links with SPS laboratories. Consequently, transporting samples taken at these BCPs to and from SPS laboratories often causes long delays in SPS clearance of imports.

- (ii) The SPS system has not been modernized through adoption of information technology and risk management. Risk management recognizes and incorporates differences in risks, and thereby provides guidance to policy makers with regard to priorities and allows resources to be used efficiently. Only one criterion (i.e., product type) is used in the framework for risk-based SPS control over imports, and the framework is not implemented at some BCPs, resulting in excessive inspection of imports (footnote 7).
- (iii) Mongolia's SPS measures are not well harmonized with international standards. Many sampling and testing methods and inspection techniques are outdated and do not conform to international standards, resulting in gaps, inconsistencies, and nonconformities.

12. The Asian Development Bank (ADB) regional technical assistance on Promoting Cooperation in Sanitary and Phytosanitary Measures for the Central Asia Regional Economic Cooperation (CAREC) funded an assessment of SPS measures in CAREC countries.⁸ CAREC members recognize the importance of SPS reforms as a means to stimulate economic growth and competitiveness, and are adopting a common agenda for modernization of SPS measures. By addressing the weaknesses mentioned in para. 11, Mongolia will take the lead in promoting SPS reforms in the framework of CAREC.

13. **Lessons.** The project builds on past and ongoing technical assistance related to SPS supported by development partners and ADB. Experience shows that improving relevant infrastructure and capacities related to food safety and animal and plant health with the goal of promoting trade or meeting other domestic policy objectives requires coordination of multiple public agencies that deal with SPS issues, and is facilitated by regular meetings of agencies that promote discussions and coordination. The project steering committee (PSC) will include a number of stakeholders to enhance coordination and information exchange. An integrated approach to the three major areas of concern (i.e. food safety, animal health and plant health) is beneficial so as to develop a common risk analysis framework and infrastructure. In addition, inadequate capacities at the country level are major constraints for effective SPS arrangements. Involvement of the private sector in SPS capacity building is necessary to ensure that the right challenges are addressed. During project preparation consultations were held with private sector which contributed to the overall project design. Regular information exchange and consultations will be maintained during implementation.

14. **National effort in regional and international perspective.** The project is consistent with ADB's interim country partnership strategy for Mongolia, 2014–2016;⁹ the country operations business plan, 2015;¹⁰ and with CAREC's Transport and Trade Facilitation Strategy 2020.¹¹ Economic diversification is a major goal of Mongolia's Government Platform (2012–

⁸ ADB. 2013. *Technical Assistance for Promoting Cooperation in Sanitary and Phytosanitary Measures for Central Asia Regional Economic Cooperation*. Manila (TA 8386-REG).

⁹ ADB. 2014. *Interim Country Partnership Strategy: Mongolia, 2014–2016*. Manila.

¹⁰ ADB. 2015. *Country Operations Business Plan: Mongolia, 2015*. Manila.

¹¹ ADB. 2014. *CAREC Transport and Trade Facilitation Strategy 2020*. Manila.

2016). In addition, food safety is a pillar of the government's National Program for Food Security (2009–2016). The project is also aligned with the government's WTO commitments.

B. Impacts and Outcome

15. The impacts will be increased agrifood trade along CAREC corridor 4, sub-corridor 4b, and enhanced economic diversification to make economic growth sustainable and more inclusive.¹² Increased exports will generate employment opportunities and foster rural development. The outcome will be improved SPS measures in compliance with the WTO and in line with the recommendations of the SPS common agenda.

C. Outputs

16. The project will have three outputs:

17. **Output 1: Laboratories and border crossing point inspection and quarantine facilities upgraded.** Laboratories in three *aimags*, served by the CAREC corridor that links BCPs critical to the movement of agricultural and food products, will be upgraded to decentralize testing and diagnostic capacity and support early disease detection.¹³ Investments will include laboratory infrastructure, equipment, and quality management. Renovation and/or construction of laboratory buildings will be undertaken to ensure suitable conditions for the operation of a modern well-equipped laboratory. A laboratory information management system (LIMS) will be introduced to manage samples, and associated analysis and reporting. Investments at BCPs will include inspection, disinfection, and quarantine facilities.

18. **Output 2: Sanitary and phytosanitary inspection management system established.** The SPS IMS will avoid duplication of documents relating to applications for and approval of permission to import and export agrifood products. The IMS will also integrate full development of a risk-based import control system to automate risk assessment and management processes, involving border control inspection, laboratories, and central administration. The data collected by the laboratories and reported using the LIMS will be fed into the IMS.

19. **Output 3: Sanitary and phytosanitary control and inspections aligned with international standards.** Testing and sampling methodologies will be aligned with WTO-compliant international standards to reduce inspection- and testing-related delays and gain international acceptance, and corresponding access to WTO-member economies. Standard operating procedures (SOPs) for laboratory and control system requirements (including food import and export inspection and certification) will be developed in line with international standards to make the fullest use of the upgraded facilities. Laboratory staff will be trained in the use of the new equipment. When a suitable level of competence is achieved, the process of accreditation to international standards will be initiated, leading to international accreditation for selected tests.

20. **Project management activities.** The project will support the establishment of an effective project management system by developing the capacity of the executing agency and implementing agencies for project implementation, monitoring, and evaluation.

¹² CAREC Corridor 4b connects Russia to Mongolia and PRC.

¹³ *Aimags*: Darkhan-Uul, Dornogovi, and Selenge. BCPs: Altanbulag and Zamyn-Uud.

D. Investment and Financing Plans

21. The project is estimated to cost \$16.25 million (Table 1).

Table 1: Project Investment Plan
(\$ million)

Item	Amount ^a
A. Base Cost^b	
1. Laboratory facilities, equipment, and training	8.17
2. Border crossing point inspection and quarantine facilities	2.74
3. Sanitary and phytosanitary inspection management system and information and communication technology	2.77
4. Project management and supervision system	0.99
Subtotal (A)	14.67
B. Contingencies^c	1.10
C. Financing Charges During Implementation^d	0.48
Total (A+B+C)	16.25

^a Includes taxes and duties of \$1.25 million to be financed from government resources in the form of tax exemption, and \$0.03 million to be financed from the Asian Development Bank (ADB) loan resources. The financing of taxes and duties is only for recurrent costs and is necessary for small expenditures. The amount of taxes and duties is determined on the grounds that (i) the amount will not represent an excessive share of the project investment plan, (ii) the taxes and duties apply only to ADB-financed expenditures, and (iii) the financing of taxes and duties is relevant for the success of the project.

^b In mid-2015 prices.

^c Physical contingencies computed at 5% for civil works; and 5% for field research and development, training, surveys, and studies. Price contingencies computed at 2.19% on foreign exchange costs and 2.79% on local currency costs; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

^d Interest during implementation for the ADB loan has been computed at an interest rate of 2%.

Source: Asian Development Bank estimates.

22. The Government of Mongolia has requested a loan in various currencies equivalent to SDR10,695,000 from ADB's Special Funds resources to help finance the project. The loan will have a 25-year term, including a grace period of 5 years, an interest rate of 2% per annum during the grace period and thereafter, and such other terms and conditions as set forth in the loan agreement.

23. The financing plan is in Table 2.

Table 2: Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank		
Asian Development Fund loan	15.00	92.30
Government	1.25	7.70
Total	16.25	100.00

Source: Asian Development Bank estimates.

E. Implementation Arrangements

24. The Office of the Deputy Prime Minister of Mongolia will be the executing agency and will oversee overall project implementation and management activities to ensure smooth and timely implementation and completion of project activities. GASI will be the implementing agency for outputs concerning plant health, food safety, and border inspections. The VABA will

be the implementing agency for aspects relating to animal health. The PSC will be established and chaired by the executing agency, composed of senior officials of the Office of the Deputy Prime Minister, GASI, VABA, the Ministry of Food and Agriculture, the Ministry of Finance, and the Customs General Administration. The PSC will meet quarterly to (i) approve annual budgets and plans for the project, (ii) review project implementation progress, (iii) guide and support project implementation, and (iv) provide coordination between ministries and agencies involved in project implementation. A project management unit will be established at GASI for day-to-day management of the project.

25. The implementation arrangements are summarized in Table 3 and described in detail in the project administration manual (PAM).¹⁴

Table 3: Implementation Arrangements

Aspects	Arrangements		
Implementation period	January 2016–December 2020		
Estimated completion date	31 December 2020 (loan closing date: 30 June 2021)		
Management			
(i) Oversight body	A PSC will be established and chaired by the executing agency. The PSC will be composed of senior officials from the Office of the Deputy Prime Minister, GASI, VABA, the Ministry of Food and Agriculture, the Ministry of Finance, and the Customs Administration.		
(ii) Executing agency	Office of the Deputy Prime Minister		
(iii) Key implementing agencies	GASI will be the implementing agency for outputs concerning plant health, food safety, and border inspections; VABA will be the implementing agency for aspects related to animal health.		
(iv) Implementation unit	A PMU will be established with 9 staff. It will be headed by a project manager and include a sanitary and phytosanitary specialist, information and communication technology specialist, environment specialist, procurement specialist, finance specialist, project performance monitoring specialist, administrative officer, and a driver. The PMU will also engage an external auditor.		
Procurement	International competitive bidding	1 contract	\$3.40 million
	National competitive bidding	4 contracts	\$8.80 million
	Shopping	1 contract	\$0.03 million
Consulting services	Quality- and cost-based selection	74 person-months	\$1.20 million
	Individual consultant selection	326 person-months	\$0.60 million
Disbursement	The loan proceeds will be disbursed in accordance with ADB's <i>Loan Disbursement Handbook</i> (2015, as amended from time to time) and detailed arrangements agreed upon between the government and ADB.		

ADB = Asian Development Bank, GASI = General Agency for Specialized Inspection, PMU = project management unit, PSC = project steering committee, VABA = Veterinary and Animal Breeding Agency.

Source: Asian Development Bank estimates.

III. DUE DILIGENCE

26. Investments will focus on three *aimags* served by the CAREC corridor and two BCPs critical for the movement of agricultural and food products subject to SPS measures.

¹⁴ Project Administration Manual (accessible from the list of linked documents in Appendix 2).

A. Technical

27. Based on an assessment of the testing needs of individual laboratories and, in particular, the role of each laboratory in the testing of imports and exports, and an evaluation of current testing capacity, equipment will be procured to (i) enable each laboratory to carry out tests they previously could not carry out (these tests would either have been done in other laboratories, requiring samples to be sent over long distances, or not done); and (ii) improve testing (a) reliability and accuracy (through modernization and/or replacement of equipment), and (b) efficiency.

28. The SOPs for the operation of the facility and equipment will form the basis of training to ensure all actions are taken in accordance with international standards. SPS inspectors at the quarantine facility will be supplied with equipment required for inspection, sampling, and transportation of samples. Staff will be trained to use the equipment in the prescribed manner.

29. The IMS will be designed, built, and commissioned to enable all those involved in agricultural and food product import, transit, and export to access information, and apply for and receive required documentation and permissions through a single web-based portal. The system will facilitate the receipt, processing, and return of application data, permissions, and documents.

30. The current product-based import-risk assessment system will be expanded and further developed and integrated into the IMS. The IMS will be housed and maintained on a dedicated hardware facility operated by GASI, and the required software and hardware will be supplied to the SPS agencies to enable them to fully participate in the system. The LIMS will be introduced into the five laboratories to enhance its efficiency and effectiveness and enable the data from the laboratories to be reported automatically and in a standardized format to the central level and fed into the IMS. Further, the IMS design will ensure interoperability with the ADB-assisted customs automated information system to facilitate information exchange between GASI and the Customs General Administration on agrifood imports and exports, and enable efficient border operations.¹⁵

B. Economic and Financial

31. The anticipated economic benefits of the project include increased agrifood exports from Mongolia and reduced documentation and time required for approval of import and export of agrifood goods.

32. The economic analysis resulted in an economic internal rate of return of 15.8% and net present value of \$2.1 million. The investments are considered economically justifiable.

33. The financial sustainability of the project has been assessed on a fiscal and project-level basis. The government has committed to provide the necessary recurrent funds following project completion to ensure the benefits of the investment are sustained.

¹⁵ ADB. 2006. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Administration of Grant to Mongolia for the Customs Modernization Project*. Manila.

C. Governance

34. A financial management assessment of GASl and VABA found the overall project financial management risk to be moderate in the absence of mitigation, primarily as a result of (i) funds flow—lack of predictability in availability of funds, with adverse impacts on budget execution from in-year reductions in the annual budget; (ii) staffing—GASl's accounting entities have a relatively high turnover rate, while VABA is vulnerable due to its limited size; (iii) internal audit—the audit is not yet operational at GASl, and only done every 2 years at VABA; and (iv) information systems—neither implementing agency conducts a regular backup of their accounting software programs and financial data.

35. Based on the identified financial management challenges and related fiduciary risks, ADB has outlined a time-bound action plan to mitigate risks.¹⁶ Specific actions include (i) prioritizing activities and related spending in the annual planning and budgeting process, (ii) setting up an audit committee in GASl and carrying out an internal audit at VABA at least once per year, and (iii) undertaking full information technology backups of the accounting software program and financial data on a weekly basis. In addition, the project management unit will include a full-time finance specialist. On this basis, the planned project arrangements are considered satisfactory to ensure implementation complies with ADB policy, operational, and procedural requirements.

36. All procurement to be financed by ADB will be carried out in accordance with ADB's Procurement Guidelines (2015, as amended from time to time). All consulting services to be financed under the project will be engaged in accordance with ADB's Guidelines on the Use of Consultants (2013, as amended from time to time). Project implementation, procurement, and financial management will be aligned with the government's SOPs. Auditors acceptable to ADB will audit the project accounts annually. The project will strengthen staff capacity in financial management procedures, and will use existing government websites to (i) disclose implementation progress, and bid notifications and results; and (ii) provide opportunities to report corrupt practices.

37. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government. The specific policy requirements and supplementary measures are described in the PAM (footnote 15).

D. Poverty and Social

38. The project will enable increased trade in Mongolia's agricultural and food products as their relative safety improves and they gain acceptance in foreign markets, notably the People's Republic of China and Russian Federation. Increased exports will contribute to economic diversification, generate employment opportunities, and foster rural development. Moreover, health risks associated with animal and plant diseases will be reduced. Indirect impacts include improved efficiency of agrifood product import and export through trade facilitation, which will benefit traders; reduced health risks associated with animal and plant diseases; and increased employment opportunities resulting from increased trade. The project will not have a direct impact on women. However, the existing laboratory staff are mainly female, and they will benefit from the new facilities and related training.

¹⁶ Table 2 of Financial Management Assessment (accessible from the list of linked documents in Appendix 2).

E. Safeguards

39. The project is classified as category B for the environment. An initial environmental examination report and an environmental management plan have been prepared in compliance with ADB's Safeguard Policy Statement (2009) and the government's regulatory framework. The upgrading of laboratories and BCP inspection and quarantine facilities may have an environmental impact. Potential adverse impacts include limited construction-related impacts, while operational impacts may involve unsafe collection, storage, treatment, and disposal of laboratory waste. The possible adverse environmental impacts will be prevented or minimized to acceptable levels through the implementation of the environmental management plan, which includes adequate mitigation and monitoring arrangements that will be implemented by contractors and the implementing agencies. The initial environmental examination was disclosed on the ADB website on 7 October 2015. The climate risk screening exercise indicated the project risk is medium. Results and recommendations of the climate risk and vulnerability assessment will be taken into account during the detailed design. The project is located on government-owned land; there will be no land acquisition, and the project is classified as category C for involuntary resettlement. The project is classified as category C for indigenous peoples as the project will not affect ethnic minority communities. The project is in compliance with ADB's information disclosure and consultation requirements. In addition, the government is committed and has the institutional capacity required to manage environmental and social risks.

F. Risks and Mitigating Measures

40. The overall project benefits are expected to outweigh the costs and risks. Major risks and mitigating measures are summarized in Table 4 and described in detail in the risk assessment and risk management plan.¹⁷

Table 4: Summary of Risks and Mitigating Measures

Risks	Mitigating Measures
Insufficient commitment and coordination among key ministries dealing with sanitary and phytosanitary issues	The Office of the Deputy Prime Minister will be the executing agency to coordinate all agencies and provide high-level oversight of project implementation.
Limited experience of some government agencies with ADB projects results in delays.	Before loan effectiveness, identify and train PMU staff who will assume day-to-day management of the project including procurement, disbursement, and financial management; train executing and implementing agency staff in applicable ADB guidelines, policies, and regulations; and establish clear roles and responsibilities among the executing agency, implementing agencies and the PMU.
Lack of operational and financial sustainability after project completion	The government has made assurances that it will allocate annual budgetary resources to cover recurrent costs related to operation and maintenance of the inspection management system, laboratories, and border crossing point facilities. Increased exports will increase government revenue and enable allocation of adequate funds. The implementing agencies will prepare operation and maintenance plans.

ADB = Asian Development Bank, PMU = project management unit.
Source: ADB.

¹⁷ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

IV. ASSURANCES AND CONDITIONS

41. The government has assured ADB that implementation of the project shall conform to all applicable ADB policies, including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the PAM and loan documents.

42. The government has agreed with ADB on certain covenants for the project, which are set forth in the loan agreement.

V. RECOMMENDATION

43. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the loan in various currencies equivalent to SDR10,695,000 to Mongolia for the Regional Upgrades of Sanitary and Phytosanitary Measures for Trade Project, from ADB's Special Funds resources, with an interest charge at the rate of 2% per annum during the grace period and thereafter; for a term of 25 years, including a grace period of 5 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board.

Takehiko Nakao
President

20 October 2015

DESIGN AND MONITORING FRAMEWORK

Impacts the Project is Aligned with Agrifood trade along CAREC corridors increased (CAREC Transport and Trade Facilitation Strategy 2020) Economic diversification in agriculture sector enhanced (Government Platform 2012–2016) ^a			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
Outcome Sanitary and phytosanitary (SPS) measures in compliance with the World Trade Organization improved	By 2020 a. Number of documents required for approval of import and export of agrifood goods reduced by 25% (2014 baseline: 12 for import and 11 for export) b. Time required to process import and export of agrifood goods reduced by 20% (2014 baseline: 45 days for import and 44 days for export)	General Agency for Specialized Inspection (GASI) Annual Report Customs General Administration of Mongolia Annual Report World Health Organization Annual Statistics and Report World Bank's World Development Indicators and Doing Business Annual Report	Weakened government commitment and policy continuity in priority SPS reforms and regional cooperation Lack of operational and financial sustainability after project completion
Outputs 1. Laboratories and border crossing points (BCP) inspection and quarantine facilities upgraded	By 2018 1a. Three new laboratory buildings constructed and two rehabilitated (2014 baseline: 0) 1b. Five laboratories provided with new equipment to carry out diagnostic tests (2014 baseline: 0) 1c. Two animal inspection areas constructed at BCPs (2014 baseline: 0) 1d. Two quarantine and disinfection facilities constructed at BCPs (2014 baseline: 0) 1e. 100 laboratory staff trained (2014 baseline: 0)	1a-d. Quarterly progress reports from contractors 1e. Training evaluation survey reports	Insufficient commitment and coordination among key ministries and agencies Limited staffing in the EA and IAs involved in project implementation Limited experience of some government agencies with ADB projects results in delays
2. SPS inspection management system (IMS) established	2a. SPS inspection management system improved by automating and streamlining procedures (2014 baseline: no IMS) 2b. Risk-based inspection system integrated into IMS (2014 baseline: no risk-based inspection system)	2a-b. Quarterly progress reports from information and communication technology firm	
3. SPS control and inspections aligned with international standards	3a. International accreditation of laboratory tests (2014 baseline: 0) 3b. Laboratory manuals developed for testing and sampling techniques in line with international standards (2014 baseline: 0)	3a.-b. Progress reports from GASI and Veterinary and Animal Breeding Agency	

Key Activities with Milestones**1. Laboratories and BCP inspection and quarantine facilities upgraded**

- 1.1 Identify and technically appraise subprojects (Q2–Q3 2016).
- 1.2 Prepare engineering designs and equipment inventory (Q2–Q3 2016).
- 1.3 Prepare bid documents (Q3 2016).
- 1.4 Award contracts for goods, works, and services (Q4 2016).
- 1.5 Construct and provide equipment (Q1 2017–Q4 2018).
- 1.6 Test and operationalize facilities and equipment (Q1–Q2 2019).

2. SPS IMS established

- 2.1 Appraise technical standards and specifications (Q2 2016).
- 2.2 Prepare bid documents (Q3 2016).
- 2.3 Award contracts for goods and services (Q4 2016).
- 2.4 Develop system and provide equipment (Q1 2017–Q1 2018).
- 2.5 Test and operationalize the system (Q1–Q2 2018).

3. SPS control and inspections aligned with international standards

- 3.1 Develop laboratory manuals for testing and sampling techniques (Q1 2018).
- 3.2 Train staff on internationally accepted testing and inspection techniques (Q1–Q4 2018).
- 3.3 Prepare and apply for international accreditation of laboratory tests (Q1 2019).

Project Management Activities

Prepare and manage implementation and procurement plans (Q2–Q4 2016).
 Prepare and update monitoring and evaluation system, and ensure timely delivery of outputs (Q2 2016–Q2 2020).
 Implement and monitor the environmental management plan and social development action plan (Q2 2016–Q4 2019).
 Conduct skills assessment of laboratory staff (Q2 2019).
 Deliver and evaluate training courses (Q2 2019–Q3 2020).

Inputs

Asian Development Bank: \$15,000,000
 Government of Mongolia: \$1,250,000

Assumptions for Partner Financing

Not applicable.

BCP = border crossing point, CAREC = Central Asia Regional Economic Cooperation, GASl = General Agency for Specialized Inspection, IMS = inspection management system, Q = quarter, SPS = sanitary and phytosanitary.

^a ADB. 2014. CAREC Transport and Trade Facilitation Strategy 2020. Manila; Government of Mongolia. 2012. The Government Platform (2012–2016). Ulaanbaatar.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=46315-001-3>

1. Loan Agreement
2. Sector Assessment (Summary): Industry and Trade
3. Project Administration Manual
4. Contribution to the ADB Results Framework
5. Development Coordination
6. Financial Analysis
7. Economic Analysis
8. Country Economic Indicators
9. Summary Poverty Reduction and Social Strategy
10. Initial Environmental Examination
11. Risk Assessment and Risk Management Plan

Supplementary Document

12. Financial Management Assessment