



# Report and Recommendation of the President to the Board of Directors

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Project Number: 47174-001  
April 2016

## Proposed Loan Mongolia: Regional Improvement of Border Services Project

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**Asian Development Bank**

## CURRENCY EQUIVALENTS

(as of 7 March 2016)

Currency unit	–	togrog (MNT)
MNT1.00	=	\$0.0005
\$1.00	=	MNT2,0383.00

## ABBREVIATIONS

ADB	–	Asian Development Bank
BCP	–	border-crossing point
CAREC	–	Central Asia Regional Economic Cooperation
CAIS	–	Customs Automated Information System
CPMM	–	corridor performance measurement and monitoring
GACT	–	General Authority of Customs and Taxation
ICT	–	information and communication technology
km	–	kilometer
PAM	–	project administration manual
PIU	–	project implementation unit
PRC	–	People's Republic of China
RIBS	–	Regional Improvement of Border Services

## NOTE

In this report, "\$" refers to US dollars.

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## PROJECT AT A GLANCE

<b>1. Basic Data</b>		<b>Project Number: 47174-001</b>	
<b>Project Name</b>	Regional Improvement of Border Services (RIBS) - MON	<b>Department /Division</b>	EARD/EAPF
<b>Country Borrower</b>	REG, MON Mongolia	<b>Executing Agency</b>	Ministry of Finance
<b>2. Sector</b>	<b>Subsector(s)</b>	<b>ADB Financing (\$ million)</b>	
<b>Industry and trade</b>	Trade and services		27.00
		<b>Total</b>	<b>27.00</b>
<b>3. Strategic Agenda</b>	<b>Subcomponents</b>	<b>Climate Change Information</b>	
Inclusive economic growth (IEG)	Pillar 1: Economic opportunities, including jobs, created and expanded	Climate Change impact on the Project	Medium
Regional integration (RCI)	Pillar 2: Trade and investment		
<b>4. Drivers of Change</b>	<b>Components</b>	<b>Gender Equity and Mainstreaming</b>	
Governance and capacity development (GCD)	Institutional systems and political economy	Some gender elements (SGE)	✓
<b>5. Poverty Targeting</b>		<b>Location Impact</b>	
Project directly targets poverty	No	Regional	High
<b>6. Risk Categorization:</b>	Low		
<b>7. Safeguard Categorization</b>	Environment: C Involuntary Resettlement: C Indigenous Peoples: C		
<b>8. Financing</b>			
<b>Modality and Sources</b>		<b>Amount (\$ million)</b>	
<b>ADB</b>		<b>27.00</b>	
Sovereign Project loan: Asian Development Fund		27.00	
<b>Cofinancing</b>		<b>0.00</b>	
None		0.00	
<b>Counterpart</b>		<b>2.07</b>	
Government		2.07	
<b>Total</b>		<b>29.07</b>	
<b>9. Effective Development Cooperation</b>			
Use of country procurement systems		Yes	
Use of country public financial management systems		Yes	

# MONGOLIA

## REGIONAL IMPROVEMENT OF BORDER SERVICES PROJECT



- National Capital
  - Provincial Capital
  - City/Town
  - Border-Crossing Point
  - CAREC Corridor 4b and 4c
  - 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.

## I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed loan to Mongolia for the Regional Improvement of Border Services Project.<sup>1</sup>

2. Enhancing efficiency and transparency of trade processes and procedures is essential to facilitate cross-border trade along the Central Asia Regional Economic Cooperation (CAREC) corridors and reduce trade transaction costs in Mongolia. The proposed project will tackle the core problem of inefficient trade processes by rehabilitating facilities and providing modern equipment to three major border-crossing points (BCPs), upgrading the Customs Automated Information System, and conducting preparatory work for the establishment of a single-window system for trade-related regulatory requirements.

## II. THE PROJECT

### A. Rationale

3. **Development challenges.** Located between the People's Republic of China (PRC) and the Russian Federation, Mongolia is one of the most sparsely populated countries in the world. Because Mongolia is vast (1.5 million square kilometers) and landlocked, regional economic cooperation and trade are critical in promoting inclusive economic growth. Geography adds dramatically to the development challenges since it drives up trade transaction costs.

4. International trade has always been important for the Mongolian economy given its abundance of natural resources and its agriculture sector.<sup>2</sup> In recent years, much progress has been made to liberalize trade regimes and conclude free trade agreements with trading partners such as Japan, which would help Mongolia boost exports.<sup>3</sup> However, market access alone is not a sufficient condition for harnessing the benefits of trade for development. Poor trade facilitation significantly reduces Mongolia's competitiveness in global markets. Improving connectivity and cross-border cooperation will therefore help lower these high costs.

5. Mongolia is a member of the CAREC program. Under the framework of CAREC, the Transport and Trade Facilitation Strategy 2020<sup>4</sup> focuses on the development of six CAREC corridors through infrastructure investments and trade facilitation initiatives, to improve the movement of goods and people through and across these corridors. In addition, the National Road Action Plan aims to improve transport services, reduce vehicle operationing costs, and provide regional links to connect Mongolia with the neighboring foreign seaports.

6. CAREC Corridor 4, designated for Mongolia, has 2,400 kilometers (km) of roads and 1,100 km of railways.<sup>5</sup> At present, Mongolia relies on the road and rail corridor from Ulaanbaatar to Zamiin-Uud to carry most of its trade with the PRC, and from Ulaanbaatar to Altanbulag for

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<sup>1</sup> The design and monitoring framework is in Appendix 1.

<sup>2</sup> Between 2009 and 2015, imports and exports more than doubled, with exports increasing from about \$1.9 billion to \$4.7 billion and imports from \$1.1 billion to \$3.8 billion. Total trade over gross national product since 2000 was about 115% on average, although it declined from 130% in 2004 to 100% in 2014.

<sup>3</sup> Mongolia acceded to the Asia-Pacific Trade Agreement in 2013. It signed a free trade agreement with Japan in 2015.

<sup>4</sup> CAREC and ADB. 2014. *CAREC Transport and Trade Facilitation Strategy 2020*. Manila.

<sup>5</sup> Corridor 4: Russian Federation–East Asia (Inner Mongolia Autonomous Region and Xinjiang Uygur Autonomous Region in the People's Republic of China, and Mongolia).

trade with the Russian Federation (CAREC Corridor 4B). The ongoing Regional Logistics Development Project<sup>6</sup> supported by the Asian Development Bank (ADB) will develop a modern logistics facility at Zamiin-Uud, which will lead to more efficient transport and logistics services.

7. In addition, once completed, the Eastern Regional Road Corridor, designated as CAREC Corridor 4C, will link Ulaanbaatar with the PRC at Bichigt (Sukhbaatar Aimag), where there are road and nearby rail connections with the PRC's northeast. The government has already completed the 555 km section from Ulaanbaatar to Baruun-Urt, and the remaining 276 km section from Baruun-Urt to Bichigt will be developed with ADB's support. Bichigt BCP is already functioning and has become increasingly important for trade with the PRC.

8. Despite the significant improvements made on transport connectivity, the cost of trade is still high in Mongolia. In the 2016 World Bank Doing Business Report, Mongolia ranked 74th out of 189 countries on the ease of trading across borders.<sup>7</sup> The Logistics Performance Index 2014 ranks Mongolia 135th out of 160 countries, and Mongolia has one of the poorest scores for customs clearance and border crossing, resulting in major delays.<sup>8</sup> Excessive physical inspections represent a major source of delay and impose heavy costs on traders.

9. **Border-crossing points.** The data from CAREC's corridor performance measurement and monitoring (CPMM)<sup>9</sup> identify the major barriers that prevent the smooth flow of goods along these corridors. CPMM data show marked improvements in the cost and speed of trucks moving along CAREC Corridor 4B from 2013 to 2014, mainly thanks to improvements in transport infrastructure. But the data also show that other bottlenecks remain. BCPs were found to be the major barrier to transport and trade. For instance, average border-crossing time at Mongolian borders in 2014 stood at 4.8 hours in Altanbulag, at 3.7 hours in Bichigt, and at 8.7 hours in Zamiin-Uud. At other BCPs bordering the PRC, border-crossing time stood at 6.8 hours in Khorgos (Kazakhstan), at 6.1 hours in Irkeshtan (Kyrgyz Republic), and at 1.4 hours in Torugart (Kyrgyz Republic). Border-crossing time at Bichigt is currently shorter than at other countries' BCPs with PRC given the lower trade volume with PRC through Bichigt. However, once the road section is completed, trade with PRC's northeast is expected to rise substantially, hence the need to address border related inefficiencies in advance.

10. According to CPMM data, a significant portion of delays is attributable to poor physical infrastructure at the BCPs and old and inefficient equipment preventing customs officials to conduct their functions effectively. Another reason for delays at the borders is the low levels of utilization of information and communication technology (ICT). Delays at BCPs impose heavy costs on traders relating largely to spoilage, storage, securing of goods while in transit, and the payment of accompanying fees. Efficient international trade procedures and customs operations can significantly reduce trade transaction costs, which in turn could result in increased volumes of trade and welfare gains.

<sup>6</sup> ADB. 2010. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Grant to Mongolia for the Regional Development Logistics Project*. Manila.

<sup>7</sup> World Bank. 2016. *Doing Business 2016: Measuring Regulatory Quality and Efficiency and Quality*. Washington, DC.

<sup>8</sup> World Bank. 2014. Logistics Performance Index. Global Rankings 2014. <http://lpi.worldbank.org/international/global>.

<sup>9</sup> Collected by a network of road carrier and freight forwarder associations documenting the time and cost of traveling along CAREC corridors. <http://cfca.net/cpmm/information>

11. **Customs automation.** The Mongolian Customs General Administration, with ADB support, embarked on the largest ICT project to date.<sup>10</sup> The Customs Automated Information System (CAIS) was officially launched in 2010, and the data center hardware was since upgraded, particularly the servers and storage devices. The software, however, was upgraded in 2013 and funded with internal resources and some upgrades were made in 2016.<sup>11</sup> Several user enhancements were rolled out, including functional features such as the expansion of the Customs External Portal interfaces, and the implementation of the e-manifest. The communication infrastructure of the CAIS should be improved to boost application performance response by improving the design of applications and programming code, and applying system-level upgrades, and by preparing the application and external interfaces necessary as new business rules and complimentary systems such as the single window are introduced.

12. In addition, the Mongolian Customs General Administration was merged with the Tax Authority in January 2016 to create the General Authority of Customs and Taxation (GACT). As both institutions were using separate ICT platforms, both systems need to be interoperable to be able to share relevant information. The interconnection and interoperability of both systems is challenging and requires support.

13. **National single window.** According to the World Bank Doing Business Indicators, it takes 37 hours to prepare and process export documents, and 22 hours for import documents. The government is interested in implementing a national single-window system as an effective means of minimizing time and cost involved in international trade. A single window<sup>12</sup> helps coordinate the processing of data and information needed to meet trade-related regulatory requirements with a single entry point for traders. The implementation of a single window would lead to greater simplification of trade processes and procedures, and greater transparency and predictability in international trade transactions. This means fewer complexities, fewer delays, and lower costs, which in turn will lead to greater export competitiveness, increased trade, more jobs, and ultimately economic growth.

14. However, the interagency nature of the single window requires extensive engagement and coordination of stakeholders from both public and private sectors, which can pose a challenge. International experience suggests to adopt a pragmatic and incremental approach to the development of a single window. Therefore, preparatory work is highly relevant to build trust and understanding between agencies and establish an appropriate legal framework before launching a single window system.

15. **National effort in regional and international perspective.** To tackle similar challenges in CAREC member countries, ADB formulated the CAREC Regional Improvement of Border Services (RIBS) Project in the Kyrgyz Republic and Tajikistan, which is intended to streamline, in a coordinated manner, transport, customs, and other border control operations along CAREC corridors and thereby increase trade in Central Asia.<sup>13</sup> Separately, ADB has approved a RIBS

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<sup>10</sup> 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.

<sup>11</sup> These upgrades were supported by the Korea International Cooperation Agency.

<sup>12</sup> As specified in the United Nations Centre for Trade Facilitation and Electronic Business Recommendation Number 33, the single window is a facility that allows parties involved in trade and transport to lodge standardized information and documents with a single entry point to fulfill all import, export, and transit-related regulatory requirements. If information is electronic, then individual data elements should only be submitted once.

<sup>13</sup> ADB. 2013. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Grants to the Kyrgyz Republic and Republic of Tajikistan: Central Asia Regional Economic Cooperation Regional Improvement of Border Services Project*. Manila.



project to improve selected Pakistan BCPs that support trade with Afghanistan and India.<sup>14</sup> ADB is also supporting a project to modernize sanitary and phytosanitary inspections of import and exports of agri-food products in Mongolia, aiming at rehabilitating inspection and quarantine facilities at Altanbulag and Zamiin-Uud and laboratories in the *aimags* (provinces) serving these BCPs.<sup>15</sup> Based on these experiences, the Government of Mongolia requested ADB to support the proposed RIBS project. The project is consistent with ADB's interim country partnership strategy for Mongolia, 2014–2016;<sup>16</sup> its country operations business plan, 2015;<sup>17</sup> and with CAREC's Transport and Trade Facilitation Strategy 2020 (footnote 4).

16. **Lessons.** Many lessons can be learned from past and ongoing technical assistance related to customs reforms and modernization supported by ADB and development partners. Regarding the development of a single-window system, three lessons are key. First, achieving meaningful results depends principally on building genuine collaboration between stakeholders. Second, for the single window to become operative, establishing a legal framework is imperative. Third, donor coordination is decisive since different business models are needed and consensus must be achieved. From a customs reform perspective, three lessons are key. First, encouraging and enabling public–private dialogue, which leads to mutually beneficial alliances, is vital. Second, ICT departments should have enough capacity to operate the automation systems and ensure sustainability. Finally, business process reengineering must be conducted in line with international standards to maximize harmonization of customs procedures across borders.

## B. Impacts and Outcome

17. The impact will be increased trade and competitiveness as a result of faster and cost-efficient cross-border services. The intended project outcome is reduced cost and time of compliance with trade procedures.

## C. Outputs

18. The project will have three outputs.

19. **Output 1: Facilities and equipment at Altanbulag, Bichigt, and Zamiin-Uud BCPs are upgraded and improved.** Infrastructure and equipment at the three BCPs are relatively old and considered inefficient. Cooperation between border agencies is also limited. Investments will focus on (i) rehabilitation and reorganization of BCP facilities to strengthen customs processing capacity and facilitate trade in line with modern customs practices,<sup>18</sup> as well as create a gender-sensitive environment;<sup>19</sup> and (ii) provision of modern equipment to enable customs officials to undertake their control function effectively and reduce reliance on manual checks. Training of customs officers on the use of newly acquired equipment and modern

<sup>14</sup> ADB. 2015. *Report and Recommendations of the President to the Board of Directors: Proposed Loan to the Islamic Republic of Pakistan: Central Asia Regional Economic Cooperation Regional Improving Border Services Project*. Manila.

<sup>15</sup> ADB. 2015. *Mongolia: Regional Upgrades of Sanitary and Phytosanitary Measures for Trade*. Manila.

<sup>16</sup> ADB. 2014. *Interim Country Partnership Strategy: Mongolia, 2014–2016*. Manila.

<sup>17</sup> ADB. 2015. *Country Operations Business Plan: Mongolia, 2015*. Manila.

<sup>18</sup> Space in the currently used facilities will be optimized and reshaped to enhance its functionality (re-establishment of lanes, parking areas, directional and information signage, and traffic flow re-engineering for vehicles and passengers). Separation systems between passengers and vehicles during entry and exit will be provided as well as independent electricity supply units. Checking and examination zones for cargo are to be covered with a canopy to serve as sheltered passageways.

<sup>19</sup> Separate lanes and inspection for women traders, and adequate washroom facilities for women.

customs practices (i.e., risk management techniques, coordinated border management, and awareness raising on human trafficking) will also be conducted.

20. **Output 2: Communication infrastructure for CAIS is improved and GACT systems are interoperable.** The core CAIS application modules will be upgraded to provide added functionalities for more operational efficiency. The CAIS system will be made single-window-ready, and capacity will be boosted to prepare for anticipated higher volume. In this regard, operating and processing capacity will be increased through system software installations and hardware upgrades alongside network upgrades. Improvements in the customer support center will be undertaken through call center analysis and design, as well as help desk and customer support software. The customs external portal system will be upgraded to allow public viewing of trade information and reports. Technical training will be provided to boost the capacity of ICT staff at GACT. Advisory support will help develop the interconnectivity and interoperability of information systems at the customs and taxation authorities. A business process integration strategy will be formulated, which will inform the ICT systems' interconnection process.

21. **Output 3: Preparatory work for single window is undertaken.** A revised single-window model will be prepared to involve, in principle, the key trade-related agencies<sup>20</sup> and private sector entities involved in the supply chain. Analysis will be undertaken to redesign processes and procedures to incorporate a coordinated border management approach to operations, including cargo examinations and information sharing. The current documentary requirements for all agencies will also be examined to streamline them into an agreed set of documents needed to clear cargo.<sup>21</sup> Preparation for the single window will also include an agreement from most agencies involved in trade to work together, share information, and link current information technology systems. An agreement should be reached on the lead agency to manage the single window, and on the financial implications of maintaining and upgrading the system. The development of a single window in Mongolia will be based on functional requirements established in these preparations. Preparatory work will lay the ground for the implementation of a single-window platform (hardware, operating systems, and infrastructure) as well as single-window applications such as e-licensing, e-signature, e-logistics,<sup>22</sup> e-payment, and single-window reporting.

22. **Project management activities.** The project will support the establishment of a project implementation unit (PIU) to effectively manage, implement, monitor, and evaluate the project.

#### **D. Investment and Financing Plans**

23. The project is estimated to cost \$29.07 million (Table 1).

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<sup>20</sup> Such as GACT, General Agency for Specialized Inspection, Veterinary and Animal Breeding Agency, Chamber of Commerce, and Office of Immigration.

<sup>21</sup> The World Customs Organization Data Model provides guidance in this area.

<sup>22</sup> e-logistics involves developing logistics information exchange platforms, develop transportation registration, point-to-point monitoring and tracking.

**Table 1: Project Investment Plan**  
(\$ million)

Item	Amount <sup>a</sup>
<b>A. Base Cost<sup>b</sup></b>	
1. Infrastructure and equipment at border-crossing points	14.85
2. Upgrades of Customs Automated Information System	2.44
3. Preparations for single window	7.68
4. Project management and supervision	0.78
<b>Subtotal (A)</b>	<b>25.75</b>
<b>B. Contingencies<sup>c</sup></b>	<b>1.70</b>
<b>C. Financing Charges During Implementation<sup>d</sup></b>	<b>1.62</b>
<b>Total (A+B+C)</b>	<b>29.07</b>

<sup>a</sup> Includes taxes and duties of \$2.07 million to be financed from government resources, in the form of tax exemption. The Asian Development Bank (ADB) will finance taxes and duties for small expenditures, which may not be tax-exempted. 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 finance expenditures, and (iii) the financing of taxes and duties is relevant to the success of the project.

<sup>b</sup> In mid-2015 prices.

<sup>c</sup> Physical contingencies computed at 4.4% 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.

<sup>d</sup> Interest during implementation for the ADB loan has been computed at 2%.

Source: Asian Development Bank estimates.

24. The government of Mongolia has requested a loan in various currencies equivalent to SDR19,394,000 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 2.0% per annum during the grace period and thereafter, and such other terms and conditions as are set forth in the loan agreement.

25. The financing plan is in Table 2.

**Table 2: Financing Plan**

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank		
Asian Development Fund	27.00	93
Government	2.07	7
<b>Total</b>	<b>29.07</b>	<b>100</b>

Source: Asian Development Bank staff estimates.

## **E. Implementation Arrangements**

26. The Ministry of Finance 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. GACT will be the implementing agency. The project steering committee will be established and chaired by the executing agency, composed of senior officials of the Ministry of Finance, GACT, Cabinet Secretariat, the General Agency for Specialized Inspection, the Veterinary and Animal Breeding Agency, the Office of Immigration, and the Mongolian National Chamber of Commerce and Industry. The project steering committee 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) coordinate

between ministries and agencies involved in project implementation. A PIU will be established at GACT for day-to-day management of the project.

27. The implementation arrangements are summarized in Table 3 and described in detail in the project administration manual (PAM).<sup>23</sup>

**Table 3: Implementation Arrangements**

Aspects	Arrangements		
Implementation period	January 2017–December 2021		
Estimated completion date	31 December 2021 (loan closing date: 30 June 2022)		
Management			
(i) Oversight body	A PSC will be established and chaired by the executing agency. The PSC will be composed of senior officials of MOF, GACT, Cabinet Secretariat, GASI, Office of Immigration, and the Mongolian National Chamber of Commerce and Industry.		
(ii) Executing agency	MOF		
(iii) Key implementing agencies	GACT will be the implementing agency.		
(iv) Implementation unit	A PIU will be established with 9 staff. It will be headed by a project manager and include an ICT specialist, infrastructure specialist, procurement specialist, finance specialist, project performance monitoring specialist, administrative officer, and a driver. The PIU will also engage an external auditor.		
Procurement	International competitive bidding	2 contracts	\$10.92 million
	National competitive bidding	7 contracts	\$9.49 million
	Shopping	1 contract	\$0.26 million
Consulting services	Quality- and cost-based selection	213 person-months	\$3.06 million
	Individual consultant selection	28 person-months	\$0.26 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, GACT = General Authority of Customs and Taxation, GASI = General Agency for Specialized Inspection, ICT = information and communication technology, MOF = Ministry of Finance, PIU = project implementation unit, PSC = project steering committee.

Source: Asian Development Bank estimates.

### III. DUE DILIGENCE

#### A. Technical

28. The Mongolian Customs General Administration has embarked on reforms and modernization to ease the flow of goods across borders. By using information technology in particular, it managed to improve operational efficiency and effectiveness.

29. The operations of customs and other border agencies at the three BCPs were assessed, particularly in relation to how the flow of goods and people through the border might be improved and contribute to trade facilitation objectives. Based on customs performance and individual needs for improvement, and an evaluation of current capacity, equipment will be

<sup>23</sup> Project Administration Manual (accessible from the list of linked documents in Appendix 2).

procured to enable each BCP to carry out inspections faster and more efficiently.<sup>24</sup> Staff will be trained to use the equipment in the prescribed manner.

30. The preparatory work for a single window is an opportunity to review processes and trade procedures and align them with international standards and facilitate trade. The processes related to customs clearance at the borders need alignment with international best practices, particularly in terms of risk management.<sup>25</sup> Training and capacity building in risk management and profiling techniques was provided to staff at most customs levels. The introduction of a single window is timely and helps incorporate a functional risk management approach into operational policies and procedures at the BCPs, which will reduce the cargo-examination time.

31. A single window transcends ICT and involves change management across different stakeholders. This requires adequate policies and a legal framework. An information exchange platform to share data across different agencies needs to be developed as well.

32. At the center of establishing a national single window is CAIS. It is fundamental given its central role in transacting and receiving regulatory documents for international trade. As business requirements evolve, CAIS needs to be improved to ensure a workable single window for trade.

## **B. Economic and Financial**

33. The anticipated economic benefits of the project include a reduction in trade costs by lowering the working capital needs of exporters and importers, a reduction in operating costs for road and railway transport companies involved in international shipments, and increased productivity of GACT staff. By lowering trade costs and time, the project will indirectly help Mongolia boost production and export of manufactured products, diversify exports away from mineral products, reinvigorate the economy, and insulate it from swings in world mineral prices.

34. The economic analysis resulted in an economic internal rate of return of 14.3% and a net present value of \$1.7 million. The investments are considered economically justifiable.

35. The financial sustainability of the project was assessed at both a fiscal and project level. The government has committed to provide the necessary recurrent funds following project completion to ensure that the benefits of the investment are sustained.

## **C. Governance**

36. A financial management assessment conducted for GACT confirms that it has adequately functioning financial accounting and reporting systems and procedures, which are computerized and managed by accounting professionals. The entity- and project-specific risks are rated moderate (pre-mitigation) because the post-merger reorganization process of setting up joint administrative and managerial arrangements is ongoing, while weaknesses were found in annual planning and budgeting processes, accounting policy documentation, internal audit, reporting, and accounting information systems. These weaknesses will be dealt with by establishing the PIU, which will assume regular financial management responsibilities. Along

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<sup>24</sup> Including but not limited to x-ray machines, testing equipment for narcotics and explosives, closed-circuit television, and base station monitors and surveillance.

<sup>25</sup> The World Customs Organization defines risk management as the systematic application of management procedures and practices that provide customs with the necessary information to deal with movements or consignments that present a risk.

with additionally proposed risk management measures, this will provide safeguards against fiduciary risks.

37. The PIU will be equipped with an integrated financial management system and staffed by qualified professionals—including a project manager, finance specialist, and performance monitoring specialist—to ensure that the project is implemented in compliance with ADB's operational and procedural requirements. Given the PIU and proposed risk mitigation measures, the project financial management risk is considered to be low, and the planned arrangements satisfactory.

38. 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 standard operating procedures. 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 channels to report corrupt practices.

39. 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 23).

#### **D. Poverty and Social**

40. The project will enable increased trade along the CAREC corridors and will reduce the cost and time of compliance with trade procedures at major BCPs. More efficient importing and exporting through trade facilitation will decrease trade transaction costs and benefit the traders, and will generate employment. Moreover, by eliminating physical and administrative obstacles to trade at BCPs, the project will help lower import prices, in particular those of essential goods. Social and gender development measures are included in a social development action plan, described in the PAM (footnote 23).

#### **E. Safeguards**

41. The project is classified as category C for the environment since there will be minimal or no adverse environmental impacts. The climate risk screening has indicated a medium risk for climate change impacts for Bichigt and Zamiin-Uud, and a high risk for Altanbulag. Climate change risks include increased snow loading, melting permafrost, and flooding. Results and recommendations of the climate risk and vulnerability assessment will be taken into account in the detailed design. The project is located on government-owned land and requires no land acquisition, so it is classified as category C for involuntary resettlement. The project is classified as category C for indigenous peoples because it will not affect ethnic minority communities. The government has the institutional capacity required to manage environmental and social risks.

## F. Risks and Mitigating Measures

42. The overall project benefits are expected to outweigh the costs and risks. The overall risk rating of the project is low. Major risks and mitigating measures are summarized in Table 4, and described in detail in the risk assessment and risk management plan.<sup>26</sup>

**Table 4: Summary of Risks and Mitigating Measures**

<b>Risks</b>	<b>Mitigating Measures</b>
Limited coordination of various public agencies dealing with international trade	A project steering committee will be established to coordinate and exchange information between stakeholders. It will serve to ensure sustained support and coordination across government agencies.
IT department of GACT is understaffed when it comes to handling complex systems and system upgrades.	The PIU will be staffed with dedicated ICT specialists to support the IT department of GACT. Close collaboration will ensure transfer of knowledge and build the capacity of government IT specialists tasked with maintenance of the system after project completion.
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 O&M of the border-crossing point facilities. Increased exports will increase government revenue and enable allocation of adequate funds. The implementing agency will prepare O&M plans.

GACT = General Authority of Customs and Taxation, ICT = information and communication technology, IT = information technology, O&M = operation and maintenance, PIU = project implementation unit.  
Source: Asian Development Bank.

## IV. ASSURANCES

43. 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.

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

## V. RECOMMENDATION

45. 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 SDR19,394,000 to Mongolia for the Regional Improvement of Border Services 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

1 April 2016

<sup>26</sup> Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

## DESIGN AND MONITORING FRAMEWORK

<b>Impacts the Project is Aligned with:</b>			
Trade and competitiveness increased (CAREC Transport and Trade Facilitation Strategy 2020) <sup>a</sup>			
<b>Project Results Chain</b>	<b>Performance Indicators with Targets and Baselines</b>	<b>Data Sources or Reporting Mechanisms</b>	<b>Risks</b>
<b>Outcome</b> Cost and time of compliance with trade procedures reduced	By 2026  Time and cost to cross project BCPs reduced by 30% (2014 baseline: Altanbulag BCP: 4.8 hours, \$659; Bichigt BCP: 3.7 hours, \$660; and Zamiin-Uud BCP: 8.7 hours, \$383)	CAREC CPMM quarterly and annual reports  CAREC TSCC and CCC annual reports  GACT semiannual reports	
<b>Outputs</b>  1. Facilities and equipment at BCPs upgraded and improved	1a. Civil works completed with the required facilities by 2021 (2014 baseline: 0)  1b. Needed equipment installed at project BCPs by 2021 (2014 baseline: 0)  1b. Separate lanes for inspection of women traders established (2014 baseline: 0)	Quarterly progress reports from contractors  Updates to CAREC annual SOM and Ministerial Conference  CAREC CPMM quarterly and annual reports  CFCFA reports	Insufficient commitment and coordination between key ministries and agencies
2. Communication infrastructure for CAIS improved and GACT systems made interoperable	2a. CAIS functional requirements developed and operational (2010 baseline: basic application development)  2b. GACT systems seamlessly exchange information (2014 baseline: no automated information exchange)	2a. Quarterly progress reports from ICT firm  2b. GACT semiannual report	IT department of GACT is understaffed when it comes to handling complex systems and system upgrades.
3. Preparatory work for single-window system undertaken	Time to prepare and process export and import documents reduced by 50% in Mongolia by 2025 (2015 baseline: 37 hours for export and 22 hours for import)	World Bank–International Finance Corporation Annual Doing Business indicators	Lack of participation and engagement by other trade-related agencies in the single-window system



<p><b>Key Activities with Milestones</b></p> <p><b>Output 1: Facilities and equipment at BCPs upgraded and improved</b></p> <ol style="list-style-type: none"> <li>1.1 Identify and technically appraise subprojects (Q2–Q3 2017)</li> <li>1.2 Prepare engineering designs and equipment inventory (Q2–Q3 2017)</li> <li>1.3 Prepare bid documents (Q3 2017)</li> <li>1.4 Award contracts for goods, works, and services (Q2 2018)</li> <li>1.5 Construct and provide equipment (Q2 2018–Q1 2021)</li> <li>1.6 Test and operationalize facilities and equipment (Q2–Q3 2021)</li> </ol> <p><b>Output 2: Communication infrastructure for CAIS improved and GACT systems made interoperable</b></p> <ol style="list-style-type: none"> <li>2.1 Conduct technical appraisal (standards and specifications) (Q2 2017)</li> <li>2.2 Prepare bid documents (Q3 2017)</li> <li>2.3 Award contracts for goods and services (Q1 2018)</li> <li>2.4 Develop the system and provide equipment (Q2 2018–Q3 2020)</li> <li>2.5 Test and operationalize the system (Q4 2020–Q2 2021)</li> </ol> <p><b>Output 3: Preparatory work for single-window system undertaken</b></p> <ol style="list-style-type: none"> <li>3.1 Undertake business process analysis (Q2 2018)</li> <li>3.2 Streamline trade procedures (Q3 2019)</li> <li>3.3 Establish interagency coordination mechanism (Q2 2021)</li> <li>3.4 Develop strategy to integrate existing IT-related initiatives for a single-window platform (Q1 2018–Q4 2021)</li> <li>3.5 Develop targeted single-window application (Q3 2018–Q4 2019)</li> </ol> <p><b>Project Management Activities</b></p> <p>Manage implementation of procurement plans (Q2 2017–Q4 2021)</p> <p>Prepare and update monitoring and evaluation system and ensure timely delivery of outputs (Q2 2017–Q4 2021)</p> <p>Conduct skills assessment of CAIS and single-window staff (Q1 2021)</p> <p>Deliver and evaluate training courses (Q4 2020–Q2 2021)</p> <p>Implement the SDAP (all through the project)</p>
<p><b>Inputs</b></p> <p><b>ADB: \$27,000,000</b></p> <p><b>Government: \$ 2,070,000</b></p>
<p><b>Assumptions for Partner Financing</b></p> <p>Not applicable.</p>

BCP = border-crossing points, CAIS = Customs Automated Information System, CAREC = Central Asia Regional Economic Cooperation, CFCFA = CAREC Federation of Carrier and Forwarder Associations, CPMM = corridor performance measurement and monitoring, GACT = General Authority of Customs and Taxation, ICT = information and communication technology, IT = information technology, SDAP = social development action plan, SOM = senior officials meeting, Q = quarter, TSCC = transport sector coordination committee.

<sup>a</sup> Central Asia Regional Economic Cooperation and Asian Development Bank. 2014. CAREC Transport and Trade Facilitation Strategy 2020. Manila.

Source: Asian Development Bank.

**LIST OF LINKED DOCUMENTS**

<http://adb.org/Documents/RRPs/?id=47174-001-3>

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. Economic Analysis
7. Financial Analysis
8. Country Economic Indicators
9. Summary Poverty Reduction and Social Strategy
10. Risk Assessment and Risk Management Plan

**Supplementary Document**

11. Financial Management Assessment