



Project Information Document (PID)

Concept Stage | Date Prepared/Updated: 25-Jan-2021 | Report No: PIDC30490



BASIC INFORMATION

A. Basic Project Data

Country Mongolia	Project ID P174806	Parent Project ID (if any)	Project Name Mongolia Transport Connectivity and Logistics improvement project (P174806)
Region EAST ASIA AND PACIFIC	Estimated Appraisal Date Oct 04, 2021	Estimated Board Date Dec 06, 2021	Practice Area (Lead) Transport
Financing Instrument Investment Project Financing	Borrower(s) Ministry of Road and Transport Development	Implementing Agency Ministry of Road and Transport Development PIU	

Proposed Development Objective(s)

The project development objective is to improve a) transport connectivity and logistics for strategic value chains in Mongolia with specific focus on the meat value chain; and b) institutional capacity of Government of Mongolia for infrastructure delivery, maintenance and asset management.

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Project Cost	150.00
Total Financing	150.00
of which IBRD/IDA	100.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	100.00
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Non-World Bank Group Financing

Commercial Financing	50.00
Unguaranteed Commercial Financing	50.00



Environmental and Social Risk Classification

Substantial

Concept Review Decision

Track II-The review did authorize the preparation to continue

Other Decision (as needed)

B. Introduction and Context

Country Context

1. Mongolia has a Gross Domestic Product (GDP) of US\$ 13.6 billion (current prices, as of 2019) and since the advent of large-scale mining in 2004, Mongolia's economy has grown at an average rate of 7.2 percent per year. Growth has translated to sustained poverty reduction without a significant increase in income inequality¹. Between 2010 and 2018, the poverty rate (calculated using national poverty line) dropped from 38% to 28%². Quality of life has also improved, with Mongolia comparing favorably with its peers in terms of the stock of human and physical capital. All these factors have been made possible by significant mineral revenues and a high level of external borrowing, providing the means to support a generous social assistance system and a large public investment program.

2. In the shadow of success have grown many of Mongolia's enduring challenges, further exacerbated by climate change and the COVID-19 pandemic. Proactive commercial development of Mongolia's abundant mineral resources - gold, copper, coking coal and rare earth elements among others – with Foreign Direct Investments (FDIs) and public resources has resulted in shifting the country's traditional agricultural economy to a mining dominant economy. The mining industry now accounts for 20 percent of Mongolia's GDP and most of the country's FDI. This shift has ensured rapid yet volatile economic growth over the last 15 years with boom and bust cycles that are highly susceptible to external shocks, including global commodity demand and fluctuating commodity prices. The effects of the commodity boom-and-bust cycles that have occurred in Mongolia every four to five years since 1992 have been exacerbated by changing procyclical fiscal policies. These have led to macroeconomic instability, evidenced by two recessions and six International Monetary Fund (IMF) economic recovery programs.

3. Overall, recent economic growth in Mongolia has come almost entirely through capital accumulation and the intensive use of natural capital rather than through sustained productivity growth. Elimination of extreme poverty owes more to the generous social transfer system than to the creation of abundant well-paying jobs. Instead of using mineral wealth to gradually reduce its dependence on the sector, Mongolia has increasingly become more reliant on it. Such dependency is ill-timed as demand for key minerals is likely to tumble due to climate change concerns, a shift of investors' preference toward sustainability, China's ambitious goal to reduce coal consumption, and persistence of the COVID-19 shock.

4. Given a renewed mandate at the election in July 2020, the Government of Mongolia has set out a development vision which is anchored on economic diversification and accelerating regional development to avoid the impacts of overdependence on mining. The *Development Vision 2050*, *Sustainable Development Vision 2030* and the *Government Action Plan 2020-2024* all identify value added mining, agriculture, tourism, creative industry, and

¹ The Gini Index for Mongolia ranged between 32 (as of 2014) and 35.8 (as of 2006), according to the World Bank Data Bank

² According to National Statistics Office, 2020



renewable energy as sectors with growth potential to support the diversification of and stabilizing of the economy. These sectors have the potential to drive economic growth given Mongolia's competitive advantage. Nevertheless, lack of infrastructure for connectivity remains a major constraint. To efficiently move primary and secondary products along a value chain requires the requisite infrastructure and logistics services.

5. As a landlocked country, Mongolia has unique geospatial and demographics challenges. With just over 3.2 million people inhabiting a territory of 1.564 million square kilometers (more than six times the size of the United Kingdom and less than a third the population of London), Mongolia has a population density of 2.1 people per square kilometer. About half the population—some 1.4 million people—cluster in the capital city Ulaanbaatar. The rest of the population is spread across small urban centers and vast steppes. Mongolia's vast territorial expanse and low population density create unique challenges for economic development in general and infrastructure investments in particular. Most of its economic activity, such as livestock herding, and mining is in places far away from cities. Although infrastructure development can help reduce economic distance and thus make economic activities in remote locations viable, access to regional and international markets remains a challenge for Mongolia.

6. The infrastructure challenges are also reflected in various international benchmarks. For example, on the *Global Competitiveness Index* produced by the World Economic Forum (WEF), Mongolia ranked 102 out of 141 countries and on the transport infrastructure rating was ranked 119 out of 141 in 2019. A similar picture also emerges from the *Logistics Performance Index* produced by the World Bank. Mongolia's overall country ranking was 130 with lower ratings for infrastructure (135), customs procedures (127) and logistics services (140). In the *Global Connectedness Index* produced by DHL, Mongolia was ranked 85 out of 169 countries. These macro level indicators though not definitive, confirm the transport connectivity and infrastructure challenges.

7. Sandwiched between China and Russia, Mongolia has a unique geographic location which has potential to provide access to large markets and drive economic growth. Mongolia places great importance on relationships with its two neighbors, while striving to strengthen relations with other partners and seeking greater political and economic integration in the region. The proximity to China has given Mongolia a ready outlet for its exports, in particular minerals, with exports to China accounting for over 90 percent of total mineral exports. Russia has strong historical links with Mongolia's economy, reflected in significant investment holdings in various sectors. However, whether the China-Mongolia-Russia Economic Corridor (CMREC), formalized in a 2014 agreement to forge closer economic ties among the three countries, can be leveraged to reduce the costs of economic distance for Mongolia remains an open question.

8. The distance and density characteristics of Mongolia inevitably influence the approach to infrastructure development which is the backbone for economic growth. The proposed *Mongolia Transport Connectivity and Logistics Improvement Project* is the first operation in support of a new approach to identifying infrastructure gaps based on value chain analysis and developing critical transport infrastructure and connectivity interventions. The analytical framework was developed as part of Mongolia InfraSAP³. In the main, the approach proposes that a '*build and they shall come*' approach in which the objective is to develop all transport infrastructure is neither affordable nor viable. Rather infrastructure should be inserted as part of an integrated value chain; in the places with highest concentration of economic activity and freight flows.

³ Mongolia InfraSAP- *Infrastructure for Connectivity and Economic Diversification, November 2020 (published by the World Bank Group)* carried out an assessment of the digital, transport and energy infrastructure required to support Mongolia's growth aspiration



Sectoral and Institutional Context

9. Mongolia has poor connectivity, because of a combination of physical infrastructure gaps, inefficient institutions and large funding and financing gap. Mongolia's roads connect only a tiny fraction of the country, making travel within the country costly, lengthy, and hazardous. Mongolia has only 1 kilometer of road for every 100 square kilometers of land. Furthermore, the size of Mongolia means that the average transport distance for freight in Mongolia is 600 kilometers, which makes transport costs a significant proportion of overall logistics costs of any goods. At a national level, transport and logistics cost make up approximately 25% percent of GDP, much higher than peers such as Uzbekistan at 17% and China at 14%.

10. Investments in the road network have increased significantly since 2010. As of 2019, Mongolia's road network consisted of 15,172 kilometers of roads. Approximately, 70 percent of new roads constructed were commissioned between 2013 and 2016, as part of the *Millennium Road Project* to provide horizontal and vertical backbone axis across Mongolia. This network of roads has significantly improved the physical connectivity yet given the spatial and demographic characteristics of Mongolia and location of productive activities, the productivity of the transport infrastructure in Mongolia remains low. In 2019, traffic on 47% of the national network was lower than 250 vehicles per day, and only 7% had traffic above 2,500 vehicles a day. The unique spatial and demographic characteristics of Mongolia create a situation in which the central North – South Corridor (along the Asia Highway 3) is relatively heavily utilized (average daily traffic reaching as high as 4430 vehicles) while the majority on the horizontal axis remain underutilized (average daily traffic as low as 164 vehicles). Only a few segments registered significant traffic, mostly in the Ulaanbaatar–Darkhan–Erdenet⁴ economic triangle, on paved roads.

11. Rail could play an important freight transport role in Mongolia for bulky exported goods but faces limitations. Several previous studies have highlighted the importance of the central railway line as the backbone for rail-based freight traffic connecting Russia and China and suggested to invest in upgrading to double track and electrified network. However, the Mongolia InfraSAP concluded that such investment is neither affordable nor justifiable. First, there are two main challenges for transit movement by rail between Russia and China: the difference in the railway track gauge sizes⁵ and the paucity of locomotives and wagons. Second, it is not obvious that such investments in infrastructure would lead to modal shift, as most rail-friendly freight is carried by trucks due to the better service reliability of trucking sector relative to the railways. The current rail line, though in relatively poor condition, can handle existing freight volumes with some minor improvements in the signaling and control systems.

12. In addition to challenges related to physical infrastructure gaps, significant institutional and sector challenges remain. The institutional weaknesses are manifested in the process of selection, prioritization, financing, construction, operation and maintenance of assets. Although a framework exists for infrastructure development, in practice the process is fragmented and unstructured. Prioritization of roads is based less on rigorous analysis and more on political negotiations and motivations, and the predominant emphasis is on new construction with limited attention paid to maintenance and operations.

13. The impacts of climate change exacerbate the challenges to Mongolia's infrastructure⁶. The increased frequency of natural hazards is likely to result in major loss of assets and more frequent travel disruptions due to weak planning and management of road asset for climate resilience. This trend is especially worrisome for Mongolia given the extreme weather conditions for 6-8 months in the year. More frequent flooding of roads during the summer and freezing of the road asphalt during the winter result in more rapid deterioration of road pavement. Overall, the annual mean temperatures have increased by 2.24 degrees centigrade between 1940 and 2018; and weather events have increased in frequency and magnitude⁷. Mongolia's permafrost has been melting at an alarming rate, shrinking from 63% of Mongolia's territory in 1971 to just over 29.3% in 2016. Strengthening the resilience of



Mongolia's road and bridge network, particularly through improved maintenance of assets, more resilient upfront design and construction, and increased connectivity is needed to avoid the disruption of value chains due to climate hazards.

14. Despite significant investments in road and rail infrastructure over the past 15 years, infrastructure asset management practices remain inadequate, resulting in substantial deferred maintenance and loss of investment value due to shortened life of physical assets. The latest inventory of road assets was conducted through an Asian Development Bank (ADB) technical assistance project in 2016, however the inventorying and condition assessment efforts were not sustained beyond the project. Lack of updated condition data results in inefficient allocation of resources, further aggravating the poor infrastructure connectivity challenges. Poorly maintained and poor condition parts of the network are likely to be more sensitive to the impacts of extreme weather than recently constructed or well-maintained areas or assets. Furthermore, if an asset is nearing the end of its design life it may be more sensitive to climatic impacts. Current road and rail maintenance procedures are not adapted to the management of a large, strategic transport network and maintenance is still carried out on a project by project basis. For example, maintenance of national roads is performed by 22 small mechanized maintenance units, 18 of which are state owned. Because the prices used do not allow for all the cost involved, and particularly the cost of capital, companies suffer losses and require frequent capital replenishment in the form of new equipment. Works are limited to basic routine maintenance (e.g., clearing side drains) and some minor repairs (e.g., filling potholes) but do not include preventive maintenance. In general, budgeting is based on top down historic estimates instead of actual condition of assets. Provincial and municipal road assets are managed by the relevant provincial and/or municipal road development agencies, while the National Road Development Center manages national roads. Oversight by the Department of Road and Transport Development is limited. In sum, the institutional mechanisms for maintenance fall far below internationally acceptable practices.

15. The Road Fund has been the primary financier of road maintenance and it has a large funding gap. Mongolia has spent 1.5%– 2% of its GDP for the road sector, a level in line with international benchmarks. However, road maintenance expenditures are less than 0.2% of GDP, well below other countries' levels—typically 0.6%–1.5% of GDP. Only 20% of the national and local road maintenance needs are currently covered, resulting in generally shorter service life of many roads compared to international comparators. One of the reasons for this situation is the slow progression of the Road Fund's revenues, which primarily consist of fuel taxes, toll revenues, a percentage of vehicle licensing tax and loans. The Road Fund's fuel and vehicle tax rates have not been revised since 1995 and have even shrunk in real terms because of inflation⁵. As a result of insufficient maintenance, Mongolia has lost sizable road assets. The expansion of the network will double total maintenance needs by 2030. The current trend is likely to result in major loss of assets as most of the newly created roads would prematurely deteriorate to a very poor condition, requiring significant rehabilitation investments to continue operations.

16. Mongolia's low population density also poses infrastructure funding challenges as long distances need to be covered with the budget of a relatively small economy. Although Mongolia already spends about ten percent of its

⁵ China's rail network consists of the "standard" size 1,435mm track gauge size, while Russia and Mongolia's rail network consist of the "wide" track gauge size 1,520mm.

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⁶ Mongolia Climate and City Resilience (P167063)

⁷ Zamba, BATJARGAL, 2019. Mongolia's Nationally Determined Contributions to the Paris Agreement: Special Envoy of Mongolia on Climate Change.

⁸ Asian Development Bank, Mongolia, Road Sector Development to 2016



GDP on public investment projects, the actual dollar value of the spending is low given the size of the GDP. Furthermore, Mongolia's public debt to GDP ratio is relatively high, leaving limited space to complement budget resources with additional public borrowing. In 2016, government debt reached 87.6 percent of GDP, caused by the sharp decline in government revenue and the expansionary fiscal policies in place since 2012. Subsequently, the government adopted the *Economic Recovery Program*, which set a public debt ceiling of 60 percent of GDP and required strict fiscal discipline, through substantial cuts in public spending. Selecting the right projects to develop through systematic planning processes is even more crucial in this context so that the Government can achieve the highest value for money from its limited public resources and develop projects that could attract more private financing.

17. The physical and economic geography of Mongolia make investment in all its infrastructure neither affordable nor justifiable. Mongolia must be selective and surgical in which infrastructure to invest in and how to integrate all associated interventions that in concert will accelerate the economic growth trajectory. Road infrastructure development has been central to Mongolia's regional development strategy; however, the current approach is not suited to Mongolia's infrastructure challenge. Mongolia's regional development principle is embedded in the country's constitution. It rests on a long-standing concept of "comparatively even" development across self-sufficient regions. This policy has been grounded in a supply-side approach to development, which emphasizes road infrastructure construction and free trade zone creation in all jurisdictions to foster the development of specific industries. Its objectives are to cause the living standards in rural and urban areas to converge, to capture value-added benefits by developing a vertically integrated mining industry, and to broaden the base of a technology-intensive, export-oriented economy. Although well intentioned, this approach to developing all infrastructure is sub-optimal and will not have the desired spark on Mongolia's growth aspirations.

18. The recent InfraSAP report noted that optimizing the meat value chain will result in the largest benefit in terms of logistics as a percentage of GDP and contribution to GDP growth. This analysis showed that developing the meat value chain will result in GDP growth of 31% or more and improvement of the logistics cost as a percentage of GDP of more than 20%. Furthermore, developing the meat value chain will have a wider and more far reaching impact on the social fabric of Mongolia. Mongolia has 233,000 herder households and a significant portion of these families will benefit from a value intervention while contributing to equitable GDP growth in Mongolia.

19. In the logistics chain, poor storage facilities and inefficient distribution mechanisms are major hindrances for the distribution, transport, and storage of domestically produced goods in Mongolia. The current inefficient logistics system leads to high-priced goods and creates congestion and pollution in cities, especially Ulaanbaatar. In contrast, development of an integrated logistics system will reduce bottlenecks in the value chain. It needs to provide a line of sight between the herdsman and consumer which will give confidence in the quality of the product, reducing waste and improving efficiency within the value chain. Such a system thereby balances supply and demand through establishing a market mechanism which supports efficient use of infrastructure through a reservation system and facilitates animal health services. A more efficient value chain will also reduce distance travelled by freight vehicles, reduce empty hauls and enable load optimization and the shift to larger and more efficient vehicles which will reduce Greenhouse Gas (GHG) Emissions from transportation of animal products.

20. In sum, Mongolia needs critical transport and logistics infrastructure, but selectivity is important given the constraints, climate change impact and physical features of the country. In addition, there are several institutional, financing and sector management challenges that must be overcome. The proposed *Transport Connectivity and Logistics project* will support the following priorities:



- **Improve transport connectivity and preserve existing assets** – this will be achieved by helping to set up a strategic road asset management plan for the critical network which is the backbone of the livestock sector. This will enable the Ministry of Road and Transport Development (MoRTD) to plan and prioritize maintenance interventions. This is critical to preserve the asset value of roads that have recently been upgraded, there by avoid the vicious cycle of build-neglect-rebuild as well as premature failures. Such an asset management plan would help to manage the strategic network on a ‘life-cycle cost-planning’ basis and to use evidence-based maintenance planning and investment decisions;
- **Support institutions and effective delivery of transport infrastructure – To Do More with Less.** Embedded within the activities will be an explicit mandate to respond to the impact of climate change. The existing transport network is highly vulnerable to adverse climate events triggered by heavy rainfall, severe winters, and floods. The unit costs for new construction is relatively high and has been increasing due to climate change. MoRTD has started to prepare strategies/design guidelines for cost-optimization and integrating climate resilience in the road sector. The strategies/ guidelines aim to avoid pre-mature failures and improve design life of road infrastructure; make best use of existing roads and bridges; promote use of local materials; adopting climate smart based solutions, including improved drainage and road surfacing; promoting innovative and climate resilient bridge designs. The proposed project will reinforce these initiatives and update the guidance to reflect current international practice
- **Plan for integrated logistics and transport services** – to achieve maximum potential from the livestock sector, on-going initiatives aimed at improving productivity of the sector must be supplemented with well-organized warehousing and transportation services. The proposed project will introduce new concepts aimed at consolidation of logistics services and reducing waste in the value chain.
- **Explore opportunities for private sector financing and participation in transport and logistics services** – in particular for those services which have revenue generation potential such as in the in the meat logistics sector.

Relationship to CPF

21. The proposed *Mongolia Transport Connectivity and Logistics Improvement Project* is well aligned with assessments in the Country Economic Memorandum, and the objectives and pillars of World Bank Group Country Partnership Framework (CPF) for FY21-25. The new CPF aims to shift the WBG engagements in Mongolia towards the productive sectors of the real economy in three focuses: (i) strengthening economic governance, (ii) boosting competitiveness, and (iii) improving quality of life. The proposed project aims to support Mongolia’s strategic value chains that have the potential to facilitate boost competitiveness. This will be achieved through improved connectivity between key regional agricultural hubs, more reliable and efficient logistics infrastructure that specifically enables unbroken cold chain of transport for the meat value chain and establishment of institutional and funding mechanisms that promote innovation and private sector investment in the logistics and transport sector. The project also proposes to improve the capacity of the MRTD to plan transport investments and to manage its assets more efficiently. As such, the project is well aligned with the CPF FY21-25.

C. Proposed Development Objective(s)

22. The project development objective is to improve a) transport connectivity and logistics for strategic value chains in Mongolia with specific focus on the meat value chain; and b) institutional capacity of Government of Mongolia for infrastructure delivery, maintenance and asset management.

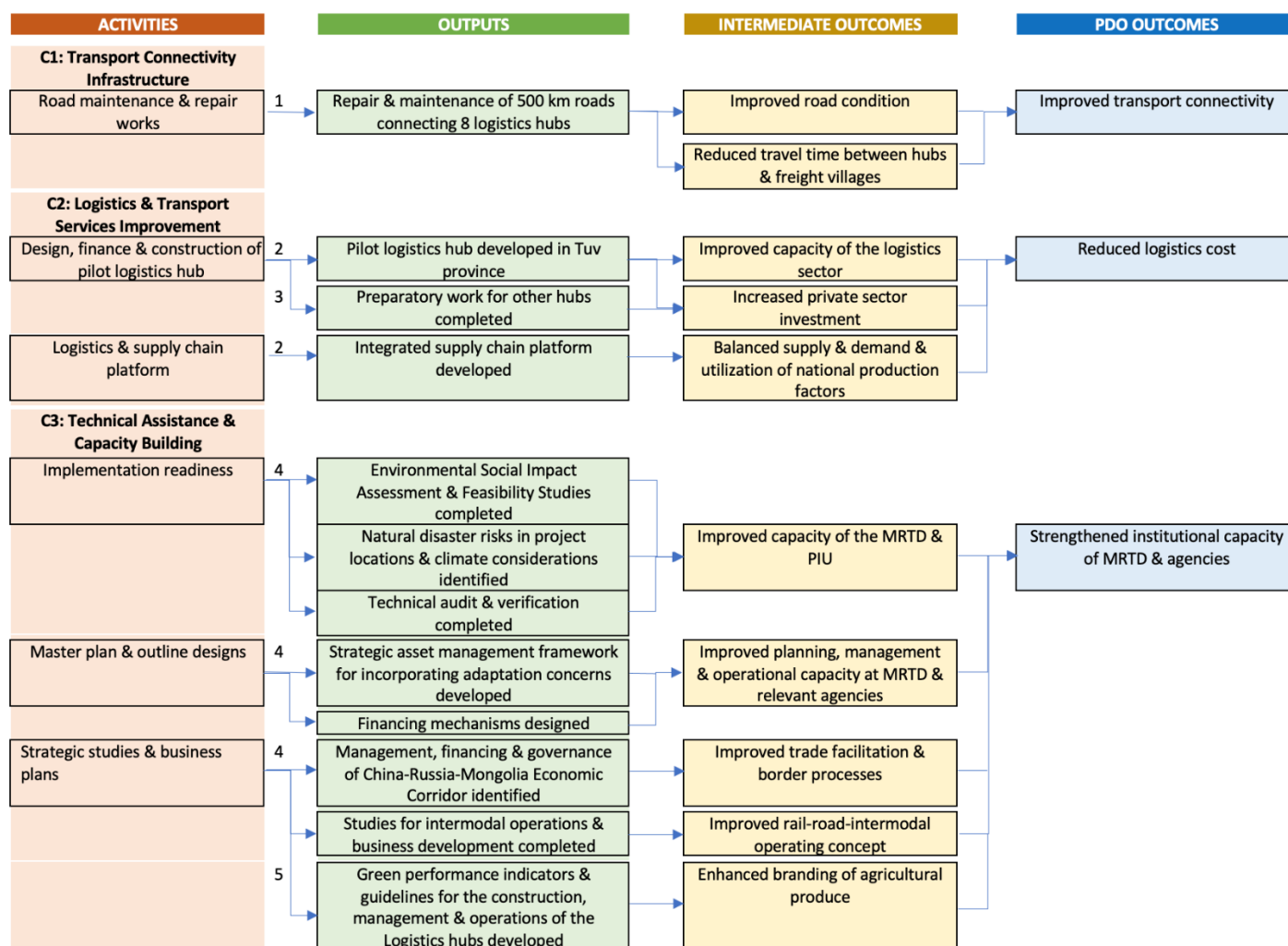


Key Results (From PCN)

23. The achievement of the PDO will be measured by the following set of proposed outcome indicators:

- Improved transport connectivity (measured by percentage of roads in good condition and designed for climate resilience in selected road corridors)
- Reduced logistics cost (measured by reduction in transportation rate in identified road corridors and logistics cost as a percentage of GDP)
- Increased private sector investment (measured by number of private actors in the logistics sector and private financing attracted)
- Strengthening of institutional capacity of the Government of Mongolia aspect of the project (measured through percentage of surveyed users satisfied with infrastructure and related services, and a project impact assessment to be carried out as part of the project)

D. Concept Description



Critical assumptions:

1. Funds will be disbursed according to plans
2. There will be coordination across agencies working on developing infrastructure to support key value chains
3. Key risks to attract greater private sector participation in logistics hub & freight villages to be addressed collectively
4. There will be strong cooperation by the government agencies; including those not directly benefiting from the World Bank loan
5. There will be strong policy support to introduce standards and regulations to improve meat quality

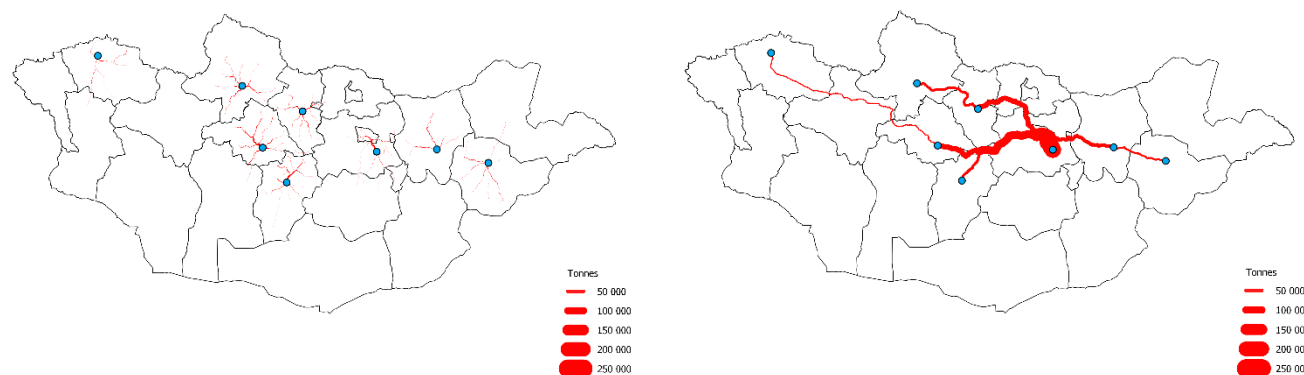
24. The proposed Mongolia Transport Connectivity and Logistics Project includes the following three components:

Component 1: Transport Connectivity Infrastructure (estimated total cost: US\$100 million; IBRD loan US\$70)

This component will improve transport connectivity for a more efficient meat supply chain. The investments and activities included in the component will target improving the connectivity between the eight target aimags with the



highest concentration of livestock. These aimags are: Uvs, Khovsgol, Bulgan, Arkhangai, Ovorkhangai, Tuv, Khentii, and Sukhbaatar.



The road network connecting these eight locations consists of 2,700km of roads in various condition. Approximately 500km are in poor condition and will be the focus of project maintenance intervention in the project. A framework for planning and prioritization of repair and maintenance will be developed. These activities do not require major design and can be completed within 12-18 months.

Component 2: Logistics and Transport Services Improvement (estimated total cost: US\$45 million; IBRD loan US\$25 million)

- ***Sub-component 1 – design, finance and construction of pilot logistics hub:*** This component will design and construct a pilot central freight village and processing hub to demonstrate the potential of an international standard value chain approach connecting herders to users and export market. The project will also finance preparatory work for other regional hubs to be developed in the target eight aimags (as mentioned in component 1) including preparing masterplan, functional design, setting up governance structure and concession model for the private sector. The sub-component will allow MoRTD to use the World Bank’s support strategically beyond road infrastructure to plan for logistics hubs that are critical for storage, processing and onward transmission to the ultimate customer.

For the central freight village at Tuv, a private concession for its superstructure development and management will be prepared and, implemented under the project to bring in private sector efficiencies and reduce the burden on public financing. The concessionaire will be expected to design, finance and operate above ground infrastructure such as warehouses and logistics activities related to trucks and cold chain logistics, using sub-contracts as needed. The concessionaire will also design and implement an unbroken cold chain of logistics for meat to reduce losses and improve the quality of the meat, including incorporating the use of mobile abattoirs, and other innovative approaches. The project will prepare and finance the “public” portions of the concession, including the land, the roads, and basic utilities, as well as provide additional support as needed to make the project financially viable (as will be determined by the feasibility study). The feasibility study, market sounding, and structuring of this concession will be supported through the project technical assistance component, ensuring that the project structure offered is attractive to potential concessionaires.

The concession will also form the basis for operating the hub. This will include the purchase and leasing of mobile abattoirs to allow for economies of scale in their procurement and financing. Mobile abattoirs can be difficult to



finance because they are small-scale and a moveable asset, unlike traditional collateral such as land or houses. Recently IFC signed a cooperation agreement with the Mongolian Bankers' Association to create a value chain financing market in Mongolia.⁹ Building on the creation of a collateral registry and a modernized Secured Transactions Law, the agreement intends to create the enabling environment for small-scale loans to SMEs in the livestock sector (amongst others). This sub-component will work closely with IFC to create complementary de-risking or credit enhancement mechanisms to enable the financing or leasing of mobile abattoirs for small entrepreneurs.

The activities will also support the design of necessary regulations of an efficient logistics cold chain, including regulations on mobile abattoirs. Through the piloting approach, the project makes a modest but important beginning in improving logistics services and lays a foundation for future scaling-up of the other satellite hubs and through studies to better understand the barriers and opportunities related to transport services and logistics efficiency, including involvement of the private sector.

Sub-component 2 - Logistics and supply chain platform: This sub-component will support the design, procurement and setting up of a digital supply chain platform to enable line of sight from the herder all the way through to domestic or export market. The aim of the platform is to bridge the information gap between various parts of the supply chain from herder to market which is critical to logistics efficiency. The platform will encompass functionalities such as capacity reservation system for mobile abattoirs, feedlot meat processing facilities, cold storage facilities, intermodal transfers and rail capacity, as well as an information platform for demand, price, market conditions and logistics for the herders.

Component 3: Technical Assistance and Capacity Building (US\$5 million)

This component focuses on institutional development, infrastructure planning and capacity building. Activities will benefit ministries and agencies involved in: 1) planning, developing, maintenance, operation and management infrastructure assets; 2) selecting and preparing infrastructure projects for private investment and PPPs; 3) management and governance of China-Russia-Mongolia Economic Corridor transport projects, and technical assistance for 4) preparation of documents needed for the implementation of proposed projects' such as Environmental Social Impact Assessment and Feasibility Studies, 5) Project implementation, coordination and management including provision of goods, consultants' services and training, operating costs and financial audit. The TAs and capacity building measures will ensure that project planning decisions, project design, and construction methods consider the level and frequency of current and future natural hazards occurring in Mongolia. The environmental studies will address issues around electricity, water supply and wastewater purification to the logistics hubs and freight village.

a) Technical support to Improve project delivery

- Preparation of documents needed for the implementation of the proposed projects' such as Environmental Social Impact Assessment and Feasibility Studies;
- Detailed design, financial viability and legal due diligence studies for the private concession of the pilot logistics hub, transaction advice for the concession;
- Incorporate GIS/remote sensing/climate risk assessment technologies, geotechnical and hydro-meteorological studies to identify natural disaster risks in project locations and integrate climate considerations into project design;
- Project implementation, coordination and management including provision of goods, consultants' services and training, operating costs and financial audit;

⁹ <https://ifcextapps.ifc.org/ifcext/pressroom/ifcpressroom.nsf/0/BC1BCF8EBA9F3809852585E400054195?OpenDocument>



- Technical audit and verification of physical works executed;
- b) Master plan and outline designs**
 - Strategic asset management to serve as a decision-making framework for incorporating climate change adaptation into the government’s infrastructure management approach;
 - Stakeholder engagement and Industry analysis for the specific hubs and logistics activities;
 - Financing options and mechanisms for the additional hubs;
- c) Strategic studies and business plans**
 - Management, financing and governance of China-Russia-Mongolia Economic Corridor;
 - Studies for intermodal operations and business development;
 - Trade facilitation and border processes;
 - Transport infrastructure investment analysis and financing options;
 - Development of green performance indicators and guidelines for the construction, management and operation of the Logistics hubs to market eco-meat from Mongolia;
- d) Training and capacity building**
 - SME and contractor capacity building program including on climate resilient infrastructure design and management;
 - Planning, management and sustainable funding of repair and maintenance of road assets;
 - Planning of critical transport infrastructure investments, particularly related to feasibility of greenfield and brownfield railways;
 - Development of PPPs;

Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

Summary of Screening of Environmental and Social Risks and Impacts

25. The social and environmental specialists assigned to the project provided initial risk assessment based on available information gathered from project PCN, social and environmental baseline data. Due to Covid-19 and lockdown of Mongolia, no site visit to the Project was arranged at the concept stage. Potential E&S risks and impacts has been assessed through the E&S assessment documents prepared and proposed mitigation measures proportionate to the level of risks and impact.

26. ES risks and impacts are expected from the following activities: a) the repair and maintenance of 500km roads in selected aimags to be carried out on existing road network and the relevant ES risks during construction include fugitive dust, noise, spoil/construction waste, soil erosion and runoff, OHS impacts to workers and communities, traffic and road safety, potential impacts to wildlife, land acquisition, livelihoods impact to communities, potential impact to ethnic minorities, risk related to GBV/SEA etc. These risks are expected to be temporary, site specific and could be



managed by adopting mitigation hierarchy; b) the proposed pilot hub in Tuv, which has only a concept at this stage. A concessionaire will be asked to design and implement a cold chain of logistics for meat including incorporating the use of mobile abattoirs etc. The project will prepare the public portions of the concession including land, roads, and basic utilities. The specific design of the hub will only be available during project implementation. Potential activities at the hub include feedlots, slaughtering, meat/milk process, cold storage, and other animal products process eg tanning, leathering, and wool/cashmere, and commercial activities including logistic services, animal health and veterinary and auxiliary services eg cleaning, repair & maintenance, training, filling station, biogas, water supply, wastewater purification, etc. The ES risks during construction will include fugitive dust, noise, spoil and construction waste, soil erosion and runoff, OHS impacts to workers and communities, traffic and road safety, land acquisition, livelihoods impact from land acquisition, which is expected to be temporary, site specific and easily managed by adopting mitigation hierarchy. As the exact location of the proposed hub is not known and will not be decided prior to appraisal and due to the contextual limitations stemming mostly from COVID-19 restrictions, detailed ESIA work will not be possible prior to appraisal. However, to ensure an adequate risk management mechanism is developed prior to appraisal, a preliminary ES Impact Assessment for the pilot hub will be prepared by MoRTD based on available information in compliance with both domestic regulations and the World Bank? ESF during appraisal stage. In addition to the project background, legal system, typical design of the hub, overall baseline in Tuv, institution arrangement, stakeholder analysis, consultation, this preliminary ESIA will also include: (a) the criteria and a exclusion list for site selection of the pilot hub/the central freight village; (b) domestic E&S regulatory framework, the Bank General EHS Guideline and applicable Industry Sector EHS Guidelines; (c) an analysis of potential risks and impacts from activities to be taken at the freight village and the feedlot during the design, construction and operation phase respectively, and corresponding mitigation measures including the management of air emission, wastewater, noise, solid waste and OHS hazards in accordance with World Bank EHS guidelines and with reference to GIIP to address E&S risks;(d) an ECOP for the construction civil works. This preliminary ESIA will assess the critical E&S risks and opportunities associated with the development of the pilot hub in Tuv and also provide development criteria assessment and management framework including those relating to associated facilities for the planning and development of future hubs.

27. An ESMF is proposed as the E&S management instrument at the appraisal stage to cover all project supported activities, including repair and maintenance of existing road, development of the pilot hub and TAs, and any associated facilities in compliance with both domestic regulations and the World Bank? ESF. The ESMF, as defined in ESS1, should set out the principles, rules, guidelines, and procedures to assess the E&S risks and impacts. The ESMF will include: (a) an analysis of potential E&S impacts that may occur from the existing road repair and maintenance and the development of the pilot hub; (b) a gap analysis of domestic E&S regulatory framework and the ESSs; (c) E&S management procedures for subproject screening, audit, assessment, approval, implementation, supervision and M&E; (d) a screening form and the E&S related eligibility criteria or exclusion list for subproject selection, against which all site specific subprojects will be screened by client and a site specific ESMP template for the existing road repair and maintenance; (e) a review of existing institutional capacity on E&S management and arrangements for staffing, capacity building which will be provided to all related parties including government and the concessionaires given the novelty of the concept, and related budget; (f) a plan for stakeholder engagement and grievance mechanisms; (g) an Environmental Codes of Practice (ECOP) for road repair and which will be an annex of the ESMF to address the E&S risks and impacts from the existing road repair and maintenance, and with traffic and road safety requirement as part of the ECOP to manage the road safety risk; and (h) an E&S assessment approach for supported TAs that may have downstream adverse E&S implications.

28. When the specific design for the pilot hub is known at implementation stage, a comprehensive ESIA to cover all the activities including the public portion provided by the government and the concession part in the pilot hub consistent with the ESMF and the preliminary ESIA will be prepared by MoRTD in accordance with World Bank EHS



guidelines and GIIP, and in which an integrated ESMP including both construction phase and operation phase will be developed. MoRTD will provide to World Bank and disclose the ESIA with an integrated ESMP for the pilot hub/the central freight village which will be specified in the ESCP.

29. For any TA activities under the project, MoRTD should incorporate reference to relevant ESSs in the TORs to ensure that activities and outputs are consistent with the requirements of ESF. These TORs will be cleared by the Bank prior to activities commence.

30. During preparation, MoRTD will develop an ESMF (including a social assessment, ethnic minority screening), Labor Management Procedure (LMP), stakeholder engagement plan (SEP), a resettlement policy framework (RPF), an ESCP and a preliminary ESIA for the pilot hub(s) consistent with the requirements of ESF. The ESMF, preliminary ESIA, LMP, RPF, SEP and ESCP should be disclosed as early as possible before appraisal locally and at the World Bank website to seek views of stakeholders. All these documents will need to also be disclosed on the Bank? website in a timely manner facilitate project approval.

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APPROVAL

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Approved By

Country Director:	Martin Raiser	28-Feb-2021
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