

**MANAGEMENT RESPONSE TO THE PROJECT PERFORMANCE EVALUATION
REPORT FOR THE ROADS DEVELOPMENT PROJECT IN MONGOLIA
(Loan 1364-MON[SF])**

On 22 January 2008, the Officer-in-Charge, Operations Evaluation Department, received the following response from the Managing Director General on behalf of Management:

I. General Comments

1. We appreciate OED's evaluation of the Roads Development Project in Mongolia. The Roads Development Project (the project) was ADB's first project in the road sector in Mongolia. ADB provided leadership, mobilized significant donor resources, and prepared the project in close collaboration with other key development partners working in the country.

2. We note that the Project Performance Evaluation Report (PPER) rated the project "successful", which is one level lower than the rating of the Project Completion Report (PCR). The only variance between the PPER and the PCR ratings was in the "effectiveness" criterion that the PPER downgraded the rating by one level from "highly effective" to "effective".

3. The PPER acknowledges that the average annual rate of growth of traffic on the project road has been about 12.8% over the last 7 years against the estimated forecast growth of about 6% at appraisal and 7% at completion. Despite increase in traffic, the PPER downgraded the "effectiveness" criterion on the grounds that the expected benefits of growth in trade were not fully achieved and the rapid increase in traffic accidents adversely affected road safety, which had been highlighted as an important issue during appraisal. We expect that the potential benefits of growth in trade will be satisfactorily achieved, once the ongoing ADB road project in Mongolia (Loan 2087-MON[SF]: Regional Road Development), which will construct the final section of the road between Ulaanbaatar and the southern border with People's Republic of China, is completed.

II. Comments on Issues, Lessons, and Follow-up Actions

4. Before we make comments on issues, lessons and follow-up actions discussed in the PPER, we note that, as indicated earlier, the project was ADB's first loan to develop Mongolia's road sector. It was designed and implemented in the early stages of Mongolia's transition towards a market-oriented economy, and in an environment of limited human and financial resources with underdeveloped institutional capacity in the transport sector for the effective initial operation and maintenance of project outputs. This hindered project implementation and resulted in several of the various issues raised in the PPER. Based on the lessons learned from this project, we note that ADB has continued to seek to address these issues through subsequent and ongoing projects, and progress is gradually being made.

5. With respect to the issue of adequacy of institutional capacity, the PPER notes that it continues to be a major issue in Mongolia, owing to the limited

trained resources available in the public sector as well as the private sector. Given the significance of this issue, recent ADB-financed road projects in Mongolia have included capacity building components for institutional strengthening of road administrators in the areas of road safety, road maintenance and improved service delivery. In addition, ADB is assisting the Ministry of Road, Transport and Tourism (MoRTT) to strengthen strategic planning capacity for transport sector activities.

6. On the issue of road maintenance, we note that the PPER acknowledges the increasing awareness within Mongolia of the need to maintain roads adequately. To enhance the capacity for effective delivery of road maintenance, the scope of the next project proposed for ADB-financing, the Western Regional Road Corridor Development for which Grant Negotiations have recently been completed, includes the establishment of maintenance units and the encouragement of private sector participation in road maintenance. With respect to funding for road maintenance, it is recognized that this needs to be further strengthened and that fund allocations for maintenance expenditures from Ministry of Finance need to be based on the road conditions and on the volume of traffic. MoRTT is also considering developing a strategy for road tolls as an option to enhance the availability of funds for road maintenance.

7. We agree with the lessons highlighted in the PPER that ADB needs to (i) design projects along the lines of regional cooperation, (ii) add better value for transport sector operations in Mongolia, and (iii) ensure better project preparation. We note that these are long-term issues, which are being addressed through ADB's ongoing and planned assistance in the transport sector.

8. Regional cooperation is increasingly seen as a key driver for Mongolia's transport strategy. Several high-level dialogues among the concerned governments—Mongolia, People's Republic of China, and the Russian Federation—have been held. To enhance value addition through innovations, ADB has explored alternative technology solutions, taking into account the difficulties faced in constructing and maintaining roads in the climatic conditions of Mongolia. A new option for pavement design has been adopted for the ongoing road project in Mongolia (Loan 2087-MON[SF]: Regional Road Development) and has also been proposed for the Western Regional Road Corridor Development that is currently under development. In addition, the Western Regional Road Corridor Development includes components for (i) the development of a cross-border road transport facilitation plan, (ii) road safety improvement, (iii) community development, and (iv) a pilot project for improvements to the road maintenance system. A proposed JFPR project connected to the Western Regional Road Corridor Development Project will support community-based local road upgrading and maintenance.

9. We support the follow-up actions proposed in the PPER, namely for ADB to (i) assist the Government to address the deteriorating road safety situation, and (ii) resolve issues relating to delays in the submission of financial statements. East Asia Department will engage in dialogue with the Government on these issues and will seek to support appropriate remedial activities.