



Asian Development Bank

## Memorandum

Operations Evaluation Department  
Operations Evaluation Division 2

**Work-in-Progress: Not for Quotation**

**For approval of paras. 13–24**

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Director, OED2

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Subject: **Project Performance Evaluation Report for Loan 1364-MON(SF): Roads Development Project and Rapid Assessment of the Roads Sector Strategy in Mongolia —Proposed Evaluation Approach Paper**

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### **A. Background**

1. Mongolia is a landlocked country and depends heavily on land transport for trade with its immediate neighbors—the Russian Federation and People’s Republic of China (PRC). As of the end of 2005, Mongolia’s road network was about 49,250 kilometers (km), comprising 11,219 km of state roads and 38,031 km of local roads. About 92% of the entire road network is earthen roads; paved and gravel roads each account for 3.9% (1,900 km) of the total. The share of paved roads is low by international comparison. Road density at 3.1 km per 100 square km is also low. The Ministry of Roads, Transport, and Tourism (MRTT) is responsible for rehabilitating and maintaining the roads in Mongolia. The MRTT is in the process of developing a national transport strategy for Mongolia, which will include a road map for expansion, rehabilitation, and maintenance of the roads.

2. The Asian Development Bank (ADB) assistance to the Mongolian transport sector was initiated in the early 1990s with funding assistance for the development of airports. This was expanded to cover the roads sector in 1995. Mongolia initiated a transformation from command-based economy to a market-based one in the 1990s. To support this transformation, the first road sector project funded by ADB was initiated to link three key economic centers of Ulaanbaatar, Darhan, and Erdenet, with an improved road along the earlier alignment. This was expected to provide a faster link to the border with the Russian Federation. In view of the increasing trade with the PRC, the need for a paved road from Ulaanbaatar to the PRC border was also perceived to be increasingly important. Appendix 1 provides a list of completed and ongoing projects and technical assistance funded by ADB in the transport sector in Mongolia.

3. The Roads Development Project (the Project) was the first ADB project loan in the roads sector of Mongolia. At the time of appraisal, Mongolia was in a state of economic transition and

did not have well defined national and sector priorities.<sup>1</sup> The PPTA preceding the project enabled the development of a medium term road master plan (MRMP) for the major national routes. Based on the priorities emanating from this MRMP, the Project was initiated. Approved in August 1995, the Project rehabilitated a key state road connecting the capital Ulaanbaatar and the Northern border with Russian Federation. It included other project components relating to design of another road on the southern side linking Ulaanbaatar with the PRC border. An advisory technical assistance (ADTA)<sup>2</sup> attached to the Project assisted the Government in developing road sector policies appropriate for a market-oriented economy. The ADTA: (i) helped develop a legal framework for the road sector; (ii) helped improve the operation and management of selected state owned road enterprises; (iii) helped develop a broad-based approach to cost recovery from various classes of road users; (iv) refined the organizational structure of the Department of Roads (now called MRTT); (v) strengthened its the financial and planning capabilities and of the new road construction companies; and (vi) developed a human resources development plan for the road sector.

4. Subsequent to the first loan in the roads sector, ADB provided two more loans in 1999 and 2004 bringing up the aggregate portfolio in the country to \$87 million. ADB's assistance in this sector has been focused on developing the north-south corridor linking the border with Russian Federation with the PRC border, linking key economic centers including Ulaanbaatar. The ADTA projects have been undertaken to address key issues such as institutional capacity building, private sector participation, improving regulatory framework, and tackling HIV/AIDS.

## **B. Expected Results of the Project**

5. The Project was designed to contribute to the development of the roads sector in Mongolia and to enhance the Government's capability to plan, administer, and implement road policies, programs, and projects. To achieve this, the Project intended to improve (i) road infrastructure for better movement of freight and passengers, (ii) the institutional capacity, and (iii) policy environment.

6. The Project achieved the following outputs: (i) periodic maintenance of 312 km of the Ulaanbaatar-Altanbulag road and reconstruction of two bridges on the Darhan-Erdenet road; (ii) although the project scope included procurement of road maintenance equipment, this was partly achieved; (iii) consulting services for detailed design and construction supervision of the project road and bridges; and (iv) consulting services for detailed design of the Nalaih-Maant road (70 km).

7. The ADTA provided assistance in development of (i) road sector policies appropriate for a market-oriented economy; (ii) efficient public and private sector enterprises involved in transport services, road construction, and maintenance; and (iii) broad-based approach to cost recovery from various classes of road users necessary for sustaining investments.

8. Appendix 2 provides a summary of the findings of the project completion report (PCR) and the major points raised during the loan processing. The project was rated highly successful by the PCR.

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<sup>1</sup> The Report and Recommendation of the President (RRP) to the Board of Directors for the Loan 1364 provided a comprehensive description of the gaps in the policy structure, although it had limited information on the status of road network.

<sup>2</sup> TA 2380-MON: *Institutional Strengthening of the Road Sector*, for \$920,000, approved on 22 August 1995.

### C. Objective and Scope of the OED Review

9. The Operations Evaluation Department (OED) intends to update its country evaluation of Mongolia in 2007–2008. It is proposed that a project performance evaluation be carried out of the Project and a rapid assessment of Mongolia's transport sector, to feed into the country evaluation update, besides providing lessons and recommendations to guide ADB's strategy in the country.

10. The OED evaluation will produce the following outputs:

- (i) A project performance evaluation report (PPER) for Loan 1364; and
- (ii) A rapid sector assessment report for the transport sector in Mongolia.

11. For the project-level performance evaluation,<sup>3</sup> the PPER will (i) assess the relevance, effectiveness and efficiency in achieving its outputs and purposes, the sustainability of the outcomes, and the institutional development and other socioeconomic impacts of the Project; (ii) assess the performance of ADB and executing agency (EA); (iii) identify key issues and lessons for future ADB operations; and (iv) analyze ADB's roads sector strategy and assistance from 1995 until date in the context of the country's needs. The evaluation will cover Loan 1364 and a site visit of the recently completed Loan 1700.

12. To provide a sector perspective, ADB's strategy for the transport sector in Mongolia will be assessed for the period 1995 to date. This assessment will include an evaluation of ADB's country strategy and program; its sector positioning; and the quality at entry of the projects in the transport sector, mainly roads. It will not include assessment of ADB assistance to the civil aviation sector, since ADB has exited from this sector after 1995.

### D. Evaluation Methodology

13. The project evaluation will (i) inspect the project road sections and select roads subjected to periodic maintenance; (ii) consult with Government staff, the ADB Mongolia Resident Mission, and other aid agencies in the road sector; (iii) consult with project affectees and beneficiaries; and (iv) look at ongoing projects to see if lessons learned were incorporated.

14. The following ground-level studies will be carried out:

- (i) Traffic count and origin-destination surveys,
- (ii) Socioeconomic impact assessment using focus group surveys,
- (iii) Technical inspection of the completed road sections, and
- (iv) Interviews with Government officials, development partners and ADB staff including the Mongolia Resident Mission.

15. The assessment of the sector strategy and positioning will be mainly a desk-based exercise. It will be supported by perceptions drawn from meetings with the Government officials. Questionnaires will be used to draw generic conclusions.

16. Appendix 3 provides a summary of the methodology and distribution of tasks among the team members. It also includes the evaluation framework.

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<sup>3</sup> The evaluation method will be based on OED's *Guidelines for Preparing Performance Evaluation Reports for Public Sector Operations*, January 2006

17. An Operations Evaluation Mission (OEM) will be fielded in June 2007 to carry out the above tasks.

**E. Key Issues to be Addressed by the Operations Evaluation Mission**

18. The project-level issues will include:

- (i) **Project outputs and their sustainability.** The OEM will (i) reassess the quality of completed civil works construction; (ii) verify the appropriateness of project cost estimates and of modifications in original scope; and (iii) confirm achievements under the design component. In respect to sustainability, the OEM will review (i) sources of revenue<sup>4</sup> and budget allocations to ensure sufficient support for adequate maintenance of the project roads; and (ii) road pavement conditions and sustainability to withstand the extreme weather conditions in Mongolia.
- (ii) **Key factors.** The OEM will evaluate the key factors that contributed to the project success.
- (iii) **Economic viability.** The OEM will reevaluate the economic internal rate of returns (EIRRs) of the project road sections in line with the PCR.
- (iv) **Project rating.** The PCR rated the project as highly successful. However, there is no systematic valuation of the different evaluation criteria. Moreover, the EIRR at completion is considerably lower at 14.6% as compared to 22.9% at appraisal. This indicates that the Project is efficient, but not highly efficient. This could dilute the overall project rating.
- (v) **Socioeconomic benefits.** The OEM will update the findings of a social analysis done by the PCR Mission. The information will include anecdotal evidence and direct interviews of transport organizations, truck owners, key village informants, shop keepers, business operators and farmers, and other households in the vicinity of the project roads. The survey will try to identify changes, if any, in socioeconomic, environmental, and road safety conditions due to the road improvements. Among the possible areas of change are transport costs (bus fares, freight rates); travel times; range of vehicle types providing service; number of service vehicles and frequency of services; reliability of transport; vehicle utilization rates; presence of transport issues related to road condition; road safety; prices of indicator consumer commodities and agricultural inputs and outputs; ease of obtaining freight and passenger transport; presence of access of and or access to health, education, advisory, credit, and other services; and use of transport by households and change in agricultural and business activities. In addition, the OEM will try to collect secondary data on poverty and development in the project areas.
- (vi) **Institutional development and policy reforms.** The ADTA attached to the Project involved several policy measures. The OEM will evaluate the effectiveness of these initiatives and the extent of value addition by ADB.
- (vii) **Project contributions to subregional cooperation.** The OEM will assess the extent linkages or benefits from cooperation with Russian Federation as well as the PRC were realized (e.g., how the road fits in the regional development strategy if one exists). Trade facilitation initiatives will be briefly reviewed.
- (viii) **Aid agency coordination and knowledge dissemination.** The OEM will determine how aid coordination in project investments is done and assess whether ADB actively shared the results of its knowledge-based products to the donor community.

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<sup>4</sup> For example, taxes on fuel, vehicle road use etc.

- (ix) Road safety, green house gas emissions and related public awareness will be reviewed.

19. Besides the bottom-up evaluation drawn from the above project-level assessment, the sector level issues will include:

- (i) **Sector positioning.** The OEM will assess whether ADB’s strategy has been in line with the needs and priorities of the country. It will review the context and analytical basis for sector positioning and project selection. In addition, it will assess whether ADB’s strategy and assistance demonstrated operational flexibility to provide a good mix of lending and nonlending services.
- (ii) **Contribution to development results.** The socioeconomic impact survey will assess in what way has ADB’s strategy and assistance contributed to achievement of pro-poor growth and socioeconomic development. The primary data collection of the survey will be limited to the project impact area, but the OEM will access secondary data from the Government sources to complement the primary data and reports/documents of other development partners.
- (iii) **Private sector participation.** The OEM will assess the level of private sector participation in the roads sector in general.
- (iv) **ADB’s performance.** The OEM will assess ADB’s performance in the transport sector in providing quality support for lending and nonlending services.

**F. Resource Requirements and Proposed Schedule**

20. Staff consultants will be appointed to carry out the following tasks:

- (i) One international consultant (Transport Economist) based in ADB headquarters to develop the economic model to recalculate the EIRR and to provide analytical support for evaluating the transport sector strategy (1 person-month inputs);
- (ii) One domestic consultant (Highway Engineer) in Mongolia to inspect the road pavement quality, selectively determine surface roughness, and assess the sustainability (0.5 person-month inputs);
- (iii) One domestic consultant (Transport Expert) to gather and process necessary data for EIRR recalculation using traffic count and origin-destination surveys (1 person month-inputs); and
- (iv) One domestic consultant (Social Expert) to carry out the socioeconomic impact assessment (1 person-month inputs).

21. The terms of reference of the above consultants is provided in Appendix 4. The OEM will be led by an Evaluation Specialist/Mission Leader. Appendix 4 also includes the terms of reference for the Evaluation Specialist/Mission Leader as well as the Evaluation Officer. Appendix 5 provides the cost estimates for the consultants’ inputs, as well as the cost for carrying out the field surveys.

22. The schedule for preparing the PPER is proposed as follows:

Evaluation Approach Paper Discussion with Director OED2	I May 2007
Initial Desk Review	II May–I June 2007
Field Mission	II–III June 2007
Submission of Domestic Consultants’ Outputs	IV July 2007
Draft PPER for Peer Review	IV August 2007
Draft for Interdepartmental/Government Review	IV September 2007
Draft Final Report for Editing	IV October 2007
Submit to the Director General, OED	III November 2007

23. **Knowledge dissemination plan.** The PPER and rapid sector assessment report will be available to the public after the director general has approved them. The reports will be uploaded on the ADB external and internal websites as well as will provide inputs to ADB's evaluation information system.

24. Mala Hettige and Richard Bolt will be the peer reviewers for this review.

attachments

cc: Directors General, EARD; OED; SPD; Directors, EATC; OED1; Country Director, MNRM; V.B. Ramos, OED2; J. Tubadeza, OEOD; OED Central Files

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