



Mongolia: Developing the Economic Cooperation Zone Project

Project Name	Developing the Economic Cooperation Zone Project		
Project Number	51410-001		
Country / Economy	Mongolia		
Project Status	Active		
Project Type / Modality of Assistance	Loan		
Source of Funding / Amount	Loan 3936-MON: Developing the Economic Cooperation Zone Project		
	Concessional ordinary capital resources lending		US\$ 30.00 million
Operational Priorities	OP1: Addressing remaining poverty and reducing inequalities OP2: Accelerating progress in gender equality OP3: Tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability OP6: Strengthening governance and institutional capacity OP7: Fostering regional cooperation and integration		
Sector / Subsector	Industry and trade / Industry and trade sector development - Small and medium enterprise development - Trade and services Information and communication technology / ICT industries and ICT-enabled services Transport / Road transport (non-urban)		
Gender	Effective gender mainstreaming		
Description	The project will serve as a catalyst for diversifying Mongolia's economy, integrating it into regional and global value chains, and increasing employment opportunities for the country's people. The focus will be the Zamyn-Uud soum (district), where the busiest international border port between Mongolia and the People's Republic of China (PRC) is located and the population relies heavily on border traffic and trade activities. The project will support the development of an economic cooperation zone between Mongolia and the PRC. It will realize the untapped economic potential of Mongolia's existing Zamyn-Uud free zone and its strategic position along corridor 4 under the Central Asia Regional Economic Cooperation (CAREC) program. CAREC corridors link the region's key economic hubs and connect landlocked CAREC countries such as Mongolia with markets in Asia, Europe and rest of the world. The project will generate economic and employment activities in Zamyn-Uud through (i) construction and operation of infrastructure and facilities in the free zone, (ii) promotion of sustainable operations and management of the free zone, and (iii) establishment of a port of entry system within the free zone.		
Project Rationale and Linkage to Country/Regional Strategy	International trade plays a critical economic role in Mongolia where the exports-to-GDP ratio stands at 62%. However, Mongolia's exports are constrained by the border delays, poor infrastructure, and weak regulatory environment that drive up its trade costs. This has been exacerbated by the unprecedented disruptions to the global economy due to the coronavirus disease (COVID-19) and the economic slowdown in the PRC. The pandemic has heightened Mongolia's need to facilitate international trade, which will be crucial to its post-pandemic economic recovery. An enabling environment is required for the private sector to maximize the impact of the government's emergency stimulus package and adapt to the rapidly evolving global economic and trade landscape. The development of an economic cooperation zone with project support is important to this effort. By providing the necessary infrastructure, facilities, and sustainable operations and management capacity in the zone, the project is expected to enable the private sector to build and improve production capacity and expand trade activities. In addition, the travel restrictions, border closures, and stricter border controls imposed worldwide to slow COVID-19's spread highlight the importance of strengthening the country's resilience to transboundary health risks. Greater use of technology and stronger systems will equip Mongolia's border agencies to better manage these risks, especially future pandemics, by enabling them to share information with one another and with their counterparts in neighboring countries. The port-of-entry system to be established under the project will support this interagency and cross-border interoperability and data sharing, particularly on customs, immigration, and inspection information. Improved traceability and coordinated risk management will result, making the cross-border movement of goods and people safer and more efficient. Free zone development is one of Mongolia's economic diversification initiatives and will also strengthen Mongolia's participation in global and regional value chains. Industries established in the zones are expected to generate a variety of exports, ranging from agricultural and manufacturing products to trade-related services. Free zones can nurture the creation of industrial clusters within the country and with neighboring countries. The Zamyn-Uud free zone is 780 kilometers southeast of Ulaanbaatar and adjacent to the border crossing point at Zamyn-Uud. This is the largest and busiest border crossing point on CAREC corridor 4 and where road, rail, and air transport networks meet. It is also the border crossing closest to Tianjin, the gateway port in the PRC for Mongolia's shipments to Japan and the Republic of Korea. Under the framework of their 2011 comprehensive strategic partnership, Mongolia and the PRC signed an agreement in June 2019 to establish the economic cooperation zone to connect Mongolia's Zamyn-Uud free zone with the PRC's Erenhot zone located in the Inner Mongolia Autonomous Region. As Mongolia's largest trading partner, the PRC was the recipient of 93% of Mongolia's exports and the source of 34% of Mongolia's imports in 2018. A substantial portion of this trade goes through the Zamyn-Uud border crossing point. Developing the economic cooperation zone will reduce Mongolia's trade costs and support its economic diversification. It will also benefit the district's population of 18,930, of which about 6,000 are women who cross the border daily to engage in informal trade.		
Impact	Economic diversification and trade linkages with global and regional value chains enhanced (CAREC Integrated Trade Agenda 2030, Pillar 2)		
Project Outcome			
Description of Outcome	Economic activities and employment in Zamyn-Uud free zone generated		
Progress Toward Outcome	Submission 2 for the engagement of the consulting firm for CS-02: Free Zone Management Advisory has been approved. Gender specialist has been recruited. From the total 10 actions of GAP, 4 have been complied and 6 are not yet due to start. Activities are on track.		
Implementation Progress			
Description of Project Outputs	Zamyn-Uud free zone infrastructure and facilities constructed and operational Sustainable operations and management of Zamyn-Uud free zone promoted Zamyn-Uud free zone port of entry system established		

Status of Implementation Progress (Outputs, Activities, and Issues)	<p>The draft master plan for the Zamyn-Uud free zone was considered by the Ministerial Council of Ministry of Construction and Urban Development on 22 February 2022 and submitted to the Cabinet for approval. However, the approval of the master plan was put on hold pending ongoing discussions under the bilateral agreement on economic cooperation zone between Mongolia and the People's Republic of China. Underscoring the urgency of the approval of the master plan to avoid further delays in project implementation, and given that development priorities and available resources are constantly changing, flexibility is encouraged in the master plan so that it can easily be adapted to accommodate future free zone development.</p> <p>The CS01 Detailed Engineering Design (DED) consulting firm package has been selected and commenced its work on 1 April 2022 working in parallel with the EA and IAs and the firm developing the master plan. Inception and progress reports have been submitted.</p> <p>Submission 2 for the selection of CS02 Free-zone Management Advisory Firm package has been approved. Financial evaluation is expected to commence in October 2022.</p> <p>The environment specialist; social and gender development specialist; trade facilitation, border management, ICT advisor; business and data analyst; and legal experts have all been engaged. The gender specialist visited the project site to meet with stakeholders to introduce the detailed plan of the GAP, exchange views on how to organize the gender activities effectively, and to collect necessary statistics of Zamyn-Uud soum.</p>
Geographical Location	Zamiin Uud

Safeguard Categories	
Environment	B
Involuntary Resettlement	C
Indigenous Peoples	C

Summary of Environmental and Social Aspects	
Environmental Aspects	The initial environmental examination indicates that because of the nature and scale of the project's investment in civil works, adverse impacts during construction will be moderate and temporary and can be mitigated. Once the Zamyn-Uud free zone becomes operational, further impacts are expected from the economic activities of investors inside the zone and from operations of linked facilities. The EMP for zone operations has been developed to avoid, minimize, and mitigate such impacts.
Involuntary Resettlement	There will be no land acquisition or involuntary resettlement resulting from project land use. The Zamyn-Uud free zone is located on state-owned special purpose land, and civil works under the project will be within the existing right-of-way or on government land allocated for such purposes under the 2011 free zone master plan.
Indigenous Peoples	There are no communities within the zone, and the project location is not identified as hosting any ethnic groups.

Stakeholder Communication, Participation, and Consultation	
During Project Design	Interested investors, investors' associations, chambers of commerce, and other stakeholders were consulted during project preparation. A market survey was conducted from July 2019 to September 2019 through focused group discussions involving seven free zone investors, consultation meetings with the Green Zone investment council (representing 28 investors), and questionnaires involving 20 non-investor companies. The project preparation team also consulted the local business owners, informal traders, taxi drivers, non-government organizations (NGO) and the public through interviews, focus group discussions, stakeholders meetings, and public consultations. The project design considered feedback from all project stakeholders to maximize the positive impacts of the operationalization of the free zone on local communities.
During Project Implementation	<p>On 29 March 2022, a public consultation was held with representatives of 81 business organizations. During the meeting, free-zone operation, project activity, ADB safeguards, and gender policy and action plans were introduced and discussed. It was attended by 51 participants. Further consultation meetings were held with a total of 173 people.</p> <p>An ADB special loan review mission was conducted in August 2022 to assess the impact of Mongolia's New Recovery Policy; Amendment of the Law on Free Zones for Mongolia; and the ratification of the bilateral economic cooperation zone agreement between Mongolia and the PRC with project implementation.</p>

Business Opportunities	
Consulting Services	All consultants will be recruited according to ADB's Procurement Regulations and Procurement Policy, except recruitment of the core five PIU staff which will be recruited according to MOF Resolution No. 196 (as updated). Consultants will be engaged using quality and cost-based selection with the standard ratio of 80:20, consultants' qualification selection, single source selection and individual consultant selection methods. The consultant recruitment will be closely monitored and supervised by ADB. All advance contracting will be undertaken in conformity with the ADB Procurement Policy (2017, as amended from time to time).
Procurement	All procurement of goods and works will be undertaken in accordance with ADB's Procurement Regulations and Procurement Policy. Open competitive bidding will be applied to all goods and civil works contracts estimated to cost \$100,001 and above. 'Request for Quotations will be used for contracts for works and goods valued up to \$100,000 and below. In accordance with ADB requirements, foreign bidders may participate in bidding for open competitive bidding national advertisement contracts. The executing and implementing agencies have been advised of the need to maintain transparency and accountability in procuring goods and services, as required under ADB's Anticorruption Policy (1998, as amended from time to time). The relevant sections of ADB's Anticorruption Policy will be included in all bidding documents and contracts.

Responsible ADB Officer	Lazaro, Dorothea
Responsible ADB Department	East Asia Department
Responsible ADB Division	Public Mgt, Financial Sector and Regional Coop Division, EARD
Executing Agencies	Ministry of Economy and Development <u>Office of the Deputy Prime Minister, Mongolia</u>

Timetable	
Concept Clearance	03 Jun 2019
Fact Finding	28 Nov 2019 to 04 Dec 2019
MRM	22 Apr 2020
Approval	18 Jun 2020
Last Review Mission	-
Last PDS Update	28 Sep 2022

Loan 3936-MON

Milestones					
Approval	Signing Date	Effectivity Date	Closing		
			Original	Revised	Actual
18 Jun 2020	02 Jul 2020	21 Aug 2020	30 Jun 2026	-	-

Financing Plan			Loan Utilization			
	Total (Amount in US\$ million)		Date	ADB	Others	Net Percentage
Project Cost	35.76		Cumulative Contract Awards			
ADB	30.00		28 Apr 2023	1.24	0.00	4%
Counterpart	5.76		Cumulative Disbursements			
Cofinancing	0.00		28 Apr 2023	0.75	0.00	3%

Status of Covenants						
Category	Sector	Safeguards	Social	Financial	Economic	Others
Rating	-	Satisfactory	Satisfactory	Satisfactory	-	Satisfactory

Project Page	https://www.adb.org/projects/51410-001/main
Request for Information	http://www.adb.org/forms/request-information-form?subject=51410-001
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