

SUMMARY OF PROJECT PERFORMANCE

A. Background

1. The Asian Development Bank (ADB) approved the Regional Road Development and Maintenance Project (current project)¹ on 29 June 2018 for \$60 million from its ordinary capital resources. The loan and project agreements were signed on 23 July 2018 and the project became effective on 21 August 2018. The current project includes three main outputs: (i) road asset management capacity improved, (ii) road condition improved, and (iii) road safety improved. The project will improve 311 kilometers (km) of existing national highway sections comprising Ulaanbaatar–Darkhan (193 km) and Ulaanbaatar–Altanbulag (118 km).

2. Phase 2 of the Regional Road Development and Maintenance Project (proposed additional financing) is programmed as a 2021 firm project for \$60 million in ADB's country operations business plan, 2019–2021 for Mongolia.² In letters dated 7 August 2018 and 22 August 2018, the finance minister of Mongolia requested that ADB bring forward the Regional Road Development and Maintenance Project Phase 2 from 2021 to 2019.

3. In response to the government's request, ADB extended the project preparatory technical assistance for the Regional Road Development and Maintenance Project for 17 months until 30 November 2019 and increased the TA amount by \$175,000 to prepare the proposed additional financing.³

B. Performance of the Project

4. The current project is performing well as it meets all the criteria: (i) the delivery of the expected outputs is rated *successful*, as initial actions such as the preparation of the detailed design are progressing as planned; (ii) implementation progress is *satisfactory*;⁵ (iii) each safeguard covenant item is being complied with;⁶ (iv) the management of risks is rated *successful*, as all the risks included in the risk assessment and risk management plan have been managed successfully;⁷ and (v) it is rated *on track* under the project performance system.⁸

¹ ADB. Mongolia: Regional Road Development and Maintenance Project. <https://www.adb.org/projects/48186-005/main>.

² ADB. 2018. *Country Operations Business Plan: Mongolia, 2019–2021*. Manila.

³ ADB. 2014. *Technical Assistance to Mongolia for Regional Road Development and Maintenance*. Manila.

⁵ No contract awards or disbursements have been made yet, which is in line with the original projection.

⁶ The Ministry of Roads and Transport Development has committed that an environmental management plan will be included in the bidding documents, required safeguard staff members will be recruited in the project implementation unit, and a project-specific grievance redress mechanism will be established.

⁷ Some financial management action items included in the project administration manual of the current project were not completed in 2018, but ADB and the government will complete the items soon after the consultants are mobilized in the second quarter of 2019.

⁸ The original project expected to recruit a design and construction supervision consultant in the third quarter of 2019 and award the first civil works contract in 2020 because the current procurement law does not allow advance contracting (an amendment to this law is under consideration). However, the government secured its own financing sources in 2018 to conduct the detailed design of the Ulaanbaatar–Darkhan section without waiting to use the ADB loan and expedited the initial project actions. The loan-funded consulting service was advertised on 29 October 2018, and a bidding document for the Ulaanbaatar–Darkhan section was issued in March 2019.

C. Conclusion

5. **Rationale.** The additional financing is proposed to (i) scale up the road rehabilitation and safety enhancement works for a deteriorated trunk road section from the capital city to the western provinces (Ulaanbaatar–Arvaikheer); and (ii) further enhance the safety and flood resilience of the current project section (Ulaanbaatar–Darkhan), some of which was severely damaged by floods in 2018. The additional scope is strongly linked to the current project’s scope and can be efficiently implemented under the same implementation arrangements. The overall project scope is aligned with the government’s priorities under the Action Program of the Government of Mongolia for 2016–2020 and ADB’s country partnership strategy.¹⁰

6. **Impact and outcome.** The impact and outcome of the overall project remain unchanged from those of the current project.

7. **Outputs and project scope.** The proposed additional financing will further enhance the road condition and safety of the Ulaanbaatar–Darkhan (204 kilometers [km]) section and improve the Khuiten Valley–Arvaikheer (58 km) section with climate change adaptation measures. The outputs of the additional financing will be (i) road condition improved for the Ulaanbaatar–Darkhan (204 km) and Khuiten Valley–Arvaikheer (58 km) sections; (ii) road safety improved for the above sections; and (iii) due diligence reports for project preparation prepared for the Chinggis–Norovlin–Dadal section (257 km), the so-called “Secret History” road.

8. **Application of high-level technology.** Head-on-head collisions on high-speed two-lane highways are serious issues in developed countries. The Ministry of Land, Infrastructure, Transport and Tourism of Japan tested various options to reduce such collision damage and concluded in June 2018 that a median barrier with cables is the most effective method. It can (i) effectively absorb collision shocks, (ii) be installed within a narrow width, and (iii) be detached in case the median needs to be opened. The technology meets the definition for ADB’s High-Level Technology Fund (HLTF)¹¹ as it is new to the country. It also has the following HLTF characteristics: (i) increases functionality to services (in one of the most heavily used sections of Mongolia’s national highways), (ii) introduces innovation in techniques (developed in Japan), and (iii) enhances the scaling up of the HLTF. The project will include \$1.5 million in grant financing from the HLTF.

9. **Investment and financing plans.** The overall project is estimated to cost \$121.2 million. The government has requested (i) a regular loan of \$58.5 million from ADB’s ordinary capital resources and (ii) a grant of \$1.5 million from ADB’s HLTF to help finance the additional financing project. The loan will have a 25-year term, including a grace period of 8 years; an annual interest rate determined in accordance with ADB’s London interbank offered rate (LIBOR)-based lending facility; a commitment charge of 0.15% per year (the interest and other charges during construction to be capitalized in the loan); and such other terms and conditions set forth in the draft loan agreement. Based on the straight-line method, the average maturity is 16.75 years, and the maturity premium payable to ADB is 0.20% per year. The HLTF will provide grant cofinancing equivalent to \$1.5 million, to be administered by ADB. The preferred financing option is parallel, and the HLTF will be used for the costs required to build wire-rope median barriers. The summary financing plan is in the table.

¹⁰ Government of Mongolia. 2016. *Action Program of the Government of Mongolia for 2016–2020*. Ulaanbaatar; and ADB. 2017. *Country Partnership Strategy: Mongolia, 2017–2020—Sustaining Inclusive Growth in a Period of Economic Difficulty*. Manila.

¹¹ Financing partner: The Government of Japan.

Table: Financing Plan

Source	Current ^a		Additional Financing		Total	
	Amount (\$ million)	Share of Total (%)	Amount (\$ million)	Share of Total (%)	Amount (\$ million)	Share of Total (%)
Asian Development Bank						
Ordinary capital resources (regular loan)	60.0	99.0	58.5	96.5	118.5	97.7
Cofinancing						
High-Level Technology Fund ^b	0.0	0.0	1.5	2.5	1.5	1.3
Government	0.6	1.0	0.6	1.0	1.2	1.0
Total	60.6	100.0	60.6	100.0	121.2	100.0

^a Refers to the current project amount.

^b Financing partner: the Government of Japan. Administered by the Asian Development Bank. The grant amount does not include administration fees or other charges.

Source: Asian Development Bank.

10. **Implementation arrangements.** The implementation arrangements, such as the executing and implementing agencies, will remain unchanged from the current project. The Ministry of Road and Transport Development is recruiting staff for the project implementation as of February 2019. The proposed additional financing will be implemented in 7 years from April 2019 to March 2026. A construction supervision consulting firm will be selected under the current project, supervise the civil works of the overall project scope, and conduct project preparatory due diligence for the Chinggis–Norovlin section.

11. **Project risk categorization.** The proposed additional financing project is categorized as low-risk. The loan amount is not in excess of \$200 million, and the safeguard categorization is not A for environment, involuntary resettlement, or indigenous peoples. The project procurement classification remains *category B*.