Introduction
Case Study 4

Providing continuous support for ODA Loan projects
"Mongolia Railway Transportation Rehabilitation Project (1) (2)"

People and vendors on the platform of Ulan Bator Station

Project Outline

Known for its plateaus, Mongolia has a population of approximately 2 million and occupies some 1.56 million km^2 or an area roughly four times the size of Japan; it is bordered by Russia to the north and China to the south. In 1991, Mongolia made the transition from socialist system to multiparty system with market economy. However, the economic turmoil occurred in the transition process and the country required economic assistance from various countries. Operation of the Mongolian Railway, which traverses the country from north to south with a total length of around 2,000 km (in Japan: the distance between Aomori and Kagoshima), also suffered when the withdrawal of support from the former Soviet Union hindered resource procurement and the operation and management of rail transportation services and there were fears that this would affect the transportation of important resources such as coal, which is a key energy source.

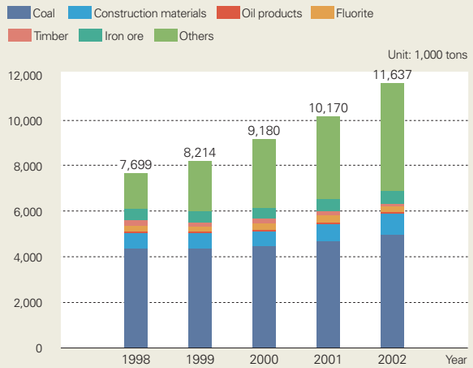
In this context, the government of Japan and the World Bank co-hosted the First Consultative Group Meeting in Tokyo in September 1991, at which various countries and aid organizations expressed to support to Mongolia. In August 1992, the Mongolian government requested the government of Japan for support for the Mongolian Railway. Based on this request, JBIC (or the Overseas Economic Cooperation Fund (OECF) at that time) dispatched study mission, conducted a Special Assistance for Project Formation (SAPROF), and dispatched an appraisal mission, and in November 1993 a loan agreement was concluded with the government of Mongolia. The Railway Transportation Rehabilitation Project was the first Japanese ODA project to be undertaken in Mongolia and played an important role in the establishment of cordial relations between Mongolia and Japan/JBIC.

Preparation

Special Assistance for Project Formation (SAPROF) was carried out as a part of the preparations for this project because data on the railway sector, which forms the basis of the appraisal, was not sufficient. During the SAPROF, basic data was collected and experts made specific recommendations on the rolling stock that was to be procured, the content of the consulting services, project costs and schedule.

Freight Volumes of Key Commodities (1998-2002)

Source: Mongolian Railway



Coal accounts for approximately half of rail freight and the railways have made a substantive contribution to the stability of energy supplies.

Implementation

The project had started in November 1993 and was completed six years and five months later in March 2000.

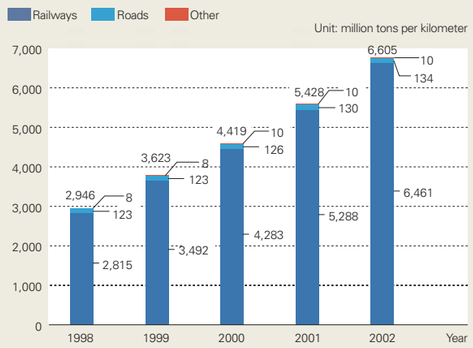
It involved the replacement of track and development of communications devices and the procurement of two locomotives, 455 freight cars and 30 passenger cars. Since this was Japan's first ODA project in Mongolia, Special Assistance for Project Implementation (SAPI) were carried out in 1997 and 1998 to support the implementation of the project. The SAPI put forward recommendations on the creation of manuals for the procured equipment, methods of simplifying procurement procedures and the development of external debt management systems.

Completion

With brisk trade between China and Russia and the recovery of Mongolian's economy, freight cargo on the Mongolian Railway reached approximately 6.5 billion tons per kilometer in 2002, or almost double the level of 1999, and the project has contributed to strengthening rail transport capacity in response to burgeoning demand for freight transportation. In addition, since the majority of coal resources are transported by rail, the project has also played a significant role in stabilizing energy supplies. Furthermore, the volume of passenger traffic reached approximately 4 million in 2002 (Mongolia's population is 2 million), and the project has also contributed to the safety of rail transportation as evidenced by the fact that the accident rate fell 27% between 1994 and 2002 in consequence of the switch to highly durable track and the development of a rail communications network. Since the Mongolian Railway did not have sufficient rolling stock, it had had to pay rental charges for freight cars from Russia Railways in foreign currency, but the procurement of 455 freight cars via the project has resulted in foreign exchange savings of approximately 1.6 million Swiss Francs annually (approximately 130 million yen). A survey of large cargo transporters evidenced that transport services have become more efficient because freight volumes per car have increased and that services have improved with shorter waiting times, etc.

Freight Cargo Performance in Mongolia (1998-2002)

Source: Mongolian Statistical Yearbook



Results for 2002 reveal that the railways account for 97.8% of all freight transportation, confirming that rail transport is critical to physical distribution in Mongolia.

Follow-up

The initially planned effects of this project have been adequately generated and there are no problems in the technical capacity, operation and maintenance system, or financial status of the executing agency: the Mongolian Railway. To ensure the sustainability of project effects, JBIC dispatches its personnel for site inspection, if necessary, and coordinate with the JICA (Japan International Cooperation Agency) expert on assignment at the Mongolian Railway, and to provide continuous follow-up.

Highly durable surface-hardened track was laid under this project.

Feedback

The evaluation results have been reported to the executing agency – Mongolian Railway – and to the government of Mongolia and have been shared internally at JBIC. Furthermore, in order that the results can be applied in the preparation of subsequent projects, it is required to refer to the lessons learned and recommendations from similar projects in the past when compiling the ex-ante evaluation report. In this way, an internal feedback system has also been developed.

Coal being loaded into freight cars

A train rushing across the plateaus
The Mongolian Railway extends approximately 2,000 km to Russia in the north, and to China in the south.