

Third Party Evaluator's Opinion on Railway Transportation Rehabilitation Project (1)(2)

DAVAADORJ Tsenddavaa
Head of Economics Department, Ph.D., Prof.
The National University of Mongolia

Impacts

The Railway Transportation Rehabilitation Project (1)(2) was carried out from November 1993 to March 2000. The objectives of the Project were to maintain Mongolian Railways existing transport capacity and save foreign currency by reducing freight car rental fees, thus contributing to stabilization of the Mongolian Economy. At the time of Project appraisal in 1993 Mongolian Railway carried more than 90% of Mongolia's freight including coal which is the country's main energy source. With the loss of Soviet financial and operational support for Mongolian Railway and schedule fee increases for rolling stock rented from Russia there was fear that deterioration of rail transport capacity could worsen Mongolia's economy and negatively affect the balance of international payments. Considering Mongolian Railway's urgent and important impact on the national economy at the time of appraisal, the Project was relevant at the time of appraisal. Freight transport by railway increased to almost 98% by 2002 and is still the largest carrier of critical coal supplies necessary for securing a stable energy supply and there the Project remains relevant to the present.

During the Project from 1993 to 1999 there was little increase in freight transport but freight transport doubled in the three years following Project completion from 2000 to 2002. This increase in freight volumes was due to a recovering Mongolian economy and greatly increased trade between Russia and China which boosted overland freight transport via Mongolia as the shortest route between Russia and China. Thus freight transport has grown substantially since Project completion and the Project helped to ensure that transport capacity meets growing demand. However, there is concern that Mongolian Railway cannot handle ever increasing freight volumes and additional improvements will be required such as increasing the number of locomotives and container cars or introducing insulated container systems and freight tracing systems.

Income from the railway business has increased steadily since 1997 due to increased freight volumes however expenditures have increased more rapidly so profit margins, while increasing are, not commensurate with the increased business volume. Subsidiary businesses operated by Mongolia Railway have been recording losses as a whole since 1997. The International Freight Forwarding Centre is highly profitable but this is offset by losses in housing, hospital, day care and school businesses. Mongolia Railway is tackling the restructure and privatization of unprofitable businesses, including converting employees' housing to privately owned houses.

Positive impacts of the Project were seen in several areas in addition to enabling Mongolia Railways to keep up with current demand for freight transport. The Project established a fiber optic cable network which enabled Mongolia Railway to improve its communication capacity and expand into the communications business. Three customers of Mongolia Railway indicate that installation of a fiber-optic cable network accelerated introduction of IT and new means of communications such as e-mail thus improving the business efficiency of each of the companies. The fiber-optic cable network has also had a positive impact on people's lives and on the development of Mongolia's communications sector and industries.