



Independent
Project
Accountability
Mechanism

Assessment Report

Ulaanbaatar Darkhan Road
EBRD Project Number 50766
Case 2022/01

September 2022

The Independent Project Accountability Mechanism (IPAM) is the European Bank for Reconstruction and Development's (EBRD) accountability mechanism. IPAM independently reviews issues raised by individuals or organisations concerning Bank-financed projects that are believed to have caused or be likely to cause harm. The purpose of the mechanism is to facilitate the resolution of social, environmental, and public disclosure issues among project stakeholders; to determine whether the Bank has complied with its Environmental and Social Policy and the project-specific provisions of its Access to Information Policy; and, where applicable, to address any existing noncompliance with these policies, while preventing future non-compliance by the Bank.

For more information about IPAM, contact us or visit www.ebrd.com/project-finance/ipam.html

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Unless otherwise indicated capitalised terms used in this report are those as set forth in the 2019 Project Accountability Policy.

LIST OF ABBREVIATIONS

Abbreviation	Long Form
ADB	Asian Development Bank
Board	the Board of Directors of the Bank
Case	the consideration of a Request under the Project Complaint Mechanism and, after July 2020, the Project Accountability Policy following its registration
Case Registry	the registry of Cases created in accordance with Section III, Paragraph 3.1 of the Project Accountability Policy, which can be found on the IPAM Webpage
EBRD (or Bank)	the European Bank for Reconstruction and Development
ESP	the EBRD's Environmental and Social Policy in force at the time of Project approval
IPAM	The independent grievance mechanism of the EBRD established as per the 2019 Project Accountability Policy
IPAM Head	The Head of IPAM, responsible for the running of IPAM, the implementation of the Project Accountability Policy and for making the decisions that are the responsibility of IPAM under the Project Accountability Policy
km	Kilometres
PAP	2019 Project Accountability Policy
Parties	The individuals, entities, and organisations with a direct interest in a Case. Parties may include (but are not limited to): the Requesters; their Representatives, if any; the relevant Bank department, team, or unit; the Client; and other Project financiers or other entities responsible for the implementation of a Project
Problem Solving	The function which supports voluntary dialogue between Requesters and Clients to resolve the environmental, social, and public disclosure issues underlying a Request, without attributing blame or fault.
PSD	Project Summary Document
President	The President of the EBRD
TV	Television

Executive Summary

The Request

The [Independent Project Accountability Mechanism](#) (IPAM) received a [Request](#) on 31 March 2022 from Lkhanaajav Burentugs, the Requester and owner of the Dugan Khad resort (the resort) located on the 108 km of the Ulaanbaatar and Darkhan City Road in the Tuv province of Mongolia. She alleges that the EBRD's [Ulaanbaatar Darkhan Road \(50766\)](#) is generating adverse impacts to her business as this road is the only access to the resort and has been closed since August 2019 due to road expansion works. As a result, she has experienced a sharp decrease in hotel bookings and loss of revenue leading to a mounting debt. As a result, she has experienced a sharp decrease in hotel bookings and loss of revenue leading to a mounting debt. A similar complaint has been sent to the accountability mechanism of the Asian Development Bank. In their communication with IPAM, the Requester expressed an interest in Problem Solving and Compliance.

The Project¹

The [Ulaanbaatar Darkhan Road \(50766\)](#) involves the expansion of a 202 km road in the north of Mongolia from Ulaanbaatar to Darkhan, the country's second-largest city, an important artery of the Mongolian road network and part of the China - Mongolia - Russia economic corridor. According to the Project Summary Document, the EBRD Project constitutes Phase II of the reconstruction works covering the widening of the road to four lanes. Phase I is funded by the Asian Development Bank and comprises the reconstruction of the existing two-lane road. The Project is implemented by the Mongolian Ministry of Transport and Roads Development (the Client). The Project comprises two loans: an original one for up to USD 137 million approved by the EBRD Board of Directors on 11 December 2019, and a second loan of up to USD 20 million approved by the Board on 23 February 2022 to finance the additional costs, stemming from the need to structurally align Phases I and II of the Project. The goal of the Project is to increase the road capacity to be able to accommodate demand for both domestic and international journeys, improve road safety and climate resilience. The loan status is approved.

IPAM Process

The Request was registered by IPAM on 17 May 2022 under [Case number 2022/01](#), initiating the Assessment stage that was conducted until August 2022 in accordance with the [2019 Project Accountability Policy \(PAP\)](#). IPAM undertook an in-depth analysis of the Request and additional information provided by the Parties, held online meetings with the Bank team responsible for the Project, representatives of the Client and the Requester and conducted a site visit to Mongolia during 25 - 31 July 2022 for meetings with the Requester, Client, and a visit the Project area relevant to the Request.

Conclusion and Next Steps

Based on the activities undertaken during the Assessment stage, IPAM determined that the Case will be transferred to the Compliance function, where the relevant team will assess the Case to determine if it is eligible for Compliance Review based on the criteria set in the PAP. As per 2.3 (c) of the 2019 PAP, the Assessment Report will be submitted to the Board and the President for information and will be disclosed in the virtual case file [Case 2022/01](#) in both English and Mongolian and all relevant Parties will be notified of its disclosure.

¹ Project Summary Document available at: <https://www.ebrd.com/work-with-us/projects/psd/50766.html>

1. Background

1.1. The Request²

On 31 March 2022 Ms. Lkhanaajav Burentugs (the Requester), owner of the Dugan Khad resort located on the 108 km of the Ulaanbaatar and Darkhan City Road in the Tuv province of Mongolia, filed a Request with IPAM. She alleges that the EBRD's [Ulaanbaatar Darkhan Road \(50766\)](#) is generating adverse impacts to her business as this road is the only access to the resort and has been closed since August 2019 due to road expansion works. As a result, she has experienced a sharp decrease in hotel bookings and loss of revenue leading to a mounting debt.

Furthermore, the Requester alleges that the works are severely delayed, and no information has been provided on progress or completion dates. According to the Request, if the works continue for much longer and the road remains closed, the resort will cease to operate completely.

Finally, the Requester also claims that other local businesses and households are being negatively impacted by the road works, amongst them 30 tourist camps, six livestock farms, six restaurants, one zoo, more than 100 agricultural companies and thousands of households located along the road. The Requester explained that she contacted both the Ministry of Roads and Transport Development and the EBRD but received no response.

A similar complaint has been sent by the same Requester to the accountability mechanism of the Asian Development Bank. In their communication to IPAM, the Requester expressed an interest in Problem Solving and Compliance.

1.2. The Project and its Current Status³

The [Ulaanbaatar Darkhan Road \(50766\)](#) involves the expansion of a 202 km road in the north of Mongolia from Ulaanbaatar to Darkhan, the country's second-largest city. The road is an important artery of the Mongolian road network and part of the China – Mongolia - Russia economic corridor. The current road is narrow, patchy and does not allow for the necessary traffic throughput. The goal of the Project is to increase the road capacity to be able to accommodate demand for both domestic and international journeys and improve road safety and climate resilience. The loan status is approved.

According to the Project Summary Document (PSD), the EBRD Project constitutes Phase II of the reconstruction works covering the widening of the road to four lanes. Phase I is funded by the Asian Development Bank and comprises the reconstruction of the existing two-lane road. The Project is implemented by the Mongolian Ministry of Transport and Roads Development.

The Ulaanbaatar Darkhan Road (50766) Project comprises two loans: an original one for up to USD 137 million approved by the EBRD Board of Directors on 11 December 2019, and a second loan of up to USD 20 million approved by the Board on 23 February 2022 to finance the additional costs, stemming from the need to structurally align Phases I and II of the Project.

The Project was categorized as A under the 2014 Environmental and Social Policy requiring a comprehensive Environmental and Social Impact Assessment, including public consultation and EBRD disclosure 120 days prior to Board approval.

According to Project documents, the Project activities would result in some economic displacement and loss of structures, but no impacts on residential properties. A separate Land Acquisition and Resettlement Framework was prepared to manage land and livelihood impacts that were included

² The Request is available at: [Complaint+Ulaanbaatar+Darkhan+road+project+redacted \(1\).pdf](#)

³ EBRD's Project Summary Document is available at: <https://www.ebrd.com/work-with-us/projects/psd/50766.html>

into the Environmental and Social Impact Assessment disclosure package to ensure the Project is structured to meet EBRD Performance Requirements.

1.3. Case Processing to Date

The Request was registered on 17 May 2022 as it met the criteria for Registration established in Section 2.2 (b) the PAP, and none of the exclusions set in Section 2.2 (c) of the PAP applied at that stage. The registration of a Request is an administrative step⁴ establishing that the following criteria have been met:

- all mandatory information has been provided;
- issues raised relate to specific obligations of the Bank under the Environmental and Social Policy and/or the project-specific provisions of the Access to Information Policy; and
- it relates to a Project that the Bank has approved, where the Request has been submitted within 24 months of the date in which the Bank has ceased to have a financial interest in the Project.

2. Assessment Stage

Immediately after registration, the Request was transferred to the Assessment Stage as established in para. 2.3 of the 2019 PAP, to:

- develop a clear understanding of the issues raised in the Request;
- discuss the Problem Solving and Compliance functions with the Parties, their scope, and outcomes;
- assess the Parties' willingness to engage in each function;
- consider the updated status of other grievance resolution efforts, if applicable; and
- make a final determination with three alternative outcomes:
- the Case could proceed to Problem Solving, based on the agreement of the Requester and the Client; or
- the Case would be transferred to Compliance Assessment if no agreement to pursue Problem Solving is reached and the Requester would have expressly asked for this; or
- the Case would be closed.

The Assessment stage has a standard duration of 40 business days from the date of Request Registration which might be extended to ensure robust processing or if translation of documents is required as per the PAP. The Assessment was initiated in May 2022 and was finalised in August 2022.

In line with the approach established in the PAP (see section 2.3 of the PAP), the IPAM team undertook the following activities during the Assessment stage:

- revision of relevant Project documents;
- virtual meetings with the Bank team responsible for the Project, representatives of the Client and the Requester;
- site visit to Mongolia by an IPAM delegation from 25 to 31 July 2022 for meetings with Requester, Client and visit of the Project area relevant to the Request.

⁴ Registration of a Request does not involve a judgement on the merits, truthfulness or correctness of its content. Nor does it have the effect of suspending the Bank's interest in the Project.

3. Site visit

The IPAM team travelled to Mongolia during the week of 25th July to engage in-person with the officials of the Ministry of Roads and with the Requester, as well as to travel along the Project alignment to get a better understanding of the Project and its relationship with the issues raised in the Request.

The first day of the mission, we had a meeting with the Government official in charge of the Project. However, as the rain that day had caused part of the recently completed section of the road to flood.

The journey from Ulaanbaatar by car (four by four-wheel drive) was scheduled to take place on Wednesday 27 July, however, due to heavy rains the day before, part of the road near by the capital had to be closed due to flooding.

The visit to the resort located on Km 108 of the Ulaanbaatar - Darkhan City Road in the Tuv province of Mongolia took place on Thursday 26 July. Travel time was three hours from Ulaanbaatar to the resort location.

For the first 37.26 kilometres (lot 1), the new road has been completed under Phase I and II and only one short section was closed due to the flood.

However, the next 45.5 kilometres (lot 2) there is no road and alternative dust roads had to be taken.

The IPAM team noted that the dust roads are in quite bad condition and there is no signalling. Vehicles go through the fields in makeshift alignments where livestock is grazing.



A section of the main road that has been unpaved but not closed to traffic

Source: IPAM



Alternative roads

Source: IPAM



Alternative roads

Source: IPAM

The resort is located 9km from the main road and the side road also presents challenging conditions for traffic. The resort has been operating for the last 50 years and in 2000 was privatised. The facilities were refurbished and expanded in 2018-2019 by the Requester.



Dugan Khad Resort facilities

Source: IPAM



Dugan Khad Resort facilities
Source: IPAM

4. Summary of the Parties Views

This section provides the views of the Requester, the Client and Bank management as captured by IPAM during virtual and in-person meetings. Prior to finalising the report, IPAM shared the relevant sections with each of the Parties to ensure accuracy.

4.1 Requester

During the Registration and Assessment stages, from March to August 2022, the IPAM team communicated frequently with the Requester through email and virtual platforms regarding the impacts of the Project. During these conversations, the Requester indicated that she tried engaging with the Client and the Bank but received no response to the concerns raised prior to her submission of the Request to IPAM. Particularly in 2021, she called ADB and EBRD but none of them returned the calls.

The Requester explained that she and her family have managed the biggest resort in Mongolia for the last 20 years, with a capacity to accommodate up to 400 guests. She explained that the resort would mostly cater to corporate clients (e.g., team retreats and conferences). In addition, the resort would also welcome other type of guests attending summer festivals or sports competitions and guests interested in hiking and rock climbing, during the June – September period.

She narrated that in August 2019 the operation of the resort almost came to a standstill from one day to next, due to the closing of the Ulaanbaatar - Dharkhan road. According to her allegations the population in the area was not notified of the closure and although there are temporary roads running parallel to the closed road, they are in poor condition.

She stated that before the road closure travelling by car or bus from Ulaanbaatar to the resort would take one hour, while now it takes three hours. The Requester considers that this has made her former customers choose other resorts in the Eastern part of Mongolia with good access roads.

While she acknowledges that the Covid-19 pandemic had an impact on the tourism sector in Mongolia, she claims that her business started falling before that. Moreover, she explained that although the Covid-19 situation has recently improved and no restrictions are now in place, her business has only marginally improved. She added that the decline in sales could be confirmed through the tax reports she has presented to Mongolian tax authorities during the relevant period and which she has sent to IPAM.⁵ She says that nowadays the resort gets around 40 guests during the weekend and that just the day before, due to the rain and the collapse of one of the sections of the main road, the bookings for that weekend were cancelled.

She further elaborated that just before the closure of the road she took a bank loan to expand the resort capacity. Due to the downturn in business, she has not been able to serve the loan, her bank account has been frozen, and the Mongolian authorities have restricted her international travel.

The resort used to employ between 20 (in winter) and 35 (in summer) employees. Most of them were dismissed and to pay them she had to sell her apartment and tried to sell the resort but there have been no serious offers due to the lack of access.

The Requester is a single parent responsible for the welfare of three families and during the interview she told IPAM that she would not have expanded the resort if had she known that the road would be closed for so long.

Additionally, the Requester further claimed that the road presents serious road safety risks, and there have been lots of traffic accidents, including about 40 casualties due to dust and reduced visibility. She mentioned that around 1000 people have subscribed to a [Facebook group](#) created to raise awareness about the impacts of the Project and that most of her neighbours have not raised complaints because they do not know they have a right to do so. The business located just in front of her resort simply decided to close and asked her to keep an eye on the property.

The Requester reiterated that they turned to IPAM as their last resort seeking remedy. They have been waiting patiently for over three years for the road to be reopened but this has not happened. She acknowledges that after submitting the Request, public officials in the Ministry met with her, shared project documentation and introduced her to the person in charge of the local grievance redress mechanism. However, she notes that they told her that if she had a complaint she should go to the contractor.

Recently she approached the official in charge of the grievance mechanism and requested the environmental and social reports but found that they were not public.

The Requester expressed interest in engaging in a Problem-Solving initiative facilitated by IPAM to discuss compensation for the economic losses she claims to have sustained. If Problem solving is not feasible, the Requester indicated that she would wish to have the Case considered under IPAM's Compliance function.

⁵ The Requester submitted to IPAM copies of tax reports for 2018, 2019, 2020 and 2021.

4.2. Client

IPAM engaged with the Client virtually on 10 June 2022 and had in person meetings on 26 and 27 July 2022 with four officials within the Ministry of Roads and Transport Development in Ulaanbaatar, Mongolia.

During the in-person meetings, the Client confirmed the importance of the Project for the country as part of the China–Mongolia–Russia economic corridor. The Client informed IPAM that they had completed approximately 46% of the scheduled works and expected to make more progress during the summer. They explained that the road construction works had been divided in five lots under the responsibility of different contractors selected through an international bidding process.

They also commented that the Project was divided in two phases; the first one funded by the Asian Development Bank and the second by the EBRD. They confirmed that the closure of the road had taken place in the summer of 2019 and that the road from Ulaanbaatar to the area where the resort is located had been divided in two lots, with lot 1 already completed. However, lot 2 had faced several delays and is still closed with traffic being diverted to temporary dust roads as the contractor had removed the top layer of the existing road and had failed to complete the work.

Initially the selected contractor, a Chinese company, had been unable to bring the workforce from China to Mongolia during lockdown, but had almost failed to meet the schedule afterwards, so the Client had to terminate their contract and start a new procurement process. In September 2021 they identified a new company that they hope would be able to complete the works in Phase 1 (ADB-funded) which is required to start Phase II (EBRD-funded).

Regarding adverse impacts on individuals and businesses along the alignment of the road, they commented that they had considered only those within 4 m from each side of the alignment. They further stated that Mongolia was not an affluent country and would be unable to compensate for temporary economic displacement.

As to the concerns raised in the Request, the Client explained that the resort was located at 8 km away from the main road and had not been considered as within the Project impact area not eligible for compensation. In their view the impacts alleged by the Requester were solely related to the Covid-19 lockdown. Furthermore, they commented that from their perspective, it was not the Client's responsibility to compensate for the Requester's lost revenue. Furthermore, they stated that access had always been guaranteed via the temporary roads, while acknowledging that these were far from perfect. From their perspective, the side road that leads to the resort after leaving the highway is in worse condition and that might also contribute to the Requester's situation.

The Client recognised that in the current road situation, travelling through the temporary roads takes about three times longer than in the past. However, they said that about 100 cars are using that Ulaanbaatar-Darkhan Road daily, including heavy trucks going from Russia to China.

Regarding information disclosure and stakeholder engagement, the Client told IPAM that the Ministry has used the media (TV, internet) to inform of the road closures, and that diversion signalling is available through the route to guide the traffic towards the temporary roads. In relation to the terms of the Project Grievance mechanism, the Client explained that it is being managed by the local governments at the soum⁶ level and that from 2022 they have two people in the Project Implementation unit in charge of social issues and complaints. Prior to hiring the two local staff, people would send their grievances directly to the Ministry.

⁶ A soum (region) is a second level administrative division below the aimags (provinces) in Mongolia. Each sum is again divided into bags (hamlets).

Regarding their participation in a Problem-Solving initiative, the Client considered that the concerns raised by the Requester were not related to the Project and thus could not foresee a resolution to them within an IPAM process.

4.3. EBRD management

IPAM held a virtual meeting with EBRD management on 10 June 2022 and exchanged several written communications after that date. Bank management provided an update on the implementation of the Project and their perspective on the matters brought to the attention of IPAM. The team also shared Project related documents for IPAM's review.

During the meeting, Bank management explained that EBRD and ADB are both financing the proposed alignment of the Ulaanbaatar – Darkhan road. ADB is financing Phase I that involves rehabilitation of the existing two lanes and EBRD is financing Phase II to expand this road by adding two new lanes over the 202 km alignment from Ulaanbaatar to Darkhan. The EBRD Project also includes construction of roundabouts, U-turns and stopping areas, provision of road furniture (barriers, lights, pedestrian crossings, etc.), as well as construction of crossings over eight railways, construction and rehabilitation of bridges and culverts and rehabilitation of toll booths.

They informed IPAM that the EBRD loan was signed in January 2020, and construction works started in March 2021. Bank management added that the expansion works would not require the closing of the roads – and that the existing road was closed due to the rehabilitation works undertaken within Phase I, funded by the ADB.

Bank management stated that it was agreed between the Lenders and the Client that EBRD would initiate Phase II only after ADB finished rehabilitating the two existing lanes as parallel construction would be challenging due to terrain constraints. It was planned that the EBRD Project would use the existing rehabilitated two-lane road (Phase I) as access road during the implementation of Phase II. They added that there was a clear delimitation of responsibilities between the two Lenders and that different contractors were hired under Phase I and II, but under the overall responsibility of the Client. Bank management added that Lenders agreed that ADB would be responsible for the temporary roads and would mitigate any associated environmental and social impacts required for the implementation of Phase I.

Bank management clarified that due to delays during construction, Covid-19 restrictions and other factors, the ADB-funded works expected to end in 2019 were delayed and were still ongoing when EBRD-funded construction works started. Bank management acknowledged that the temporary roads maintained within the ADB component were not in great condition, which made driving through difficult, and that there could be better maintenance of the roads.

The team explained that they anticipated the Project activities to result in some economic displacement and loss of structures, for which engagement with asset owners was conducted by the Client to agree on compensation procedures for relocation of structures but clarified that during appraisal no residential properties were identified as being affected by the Project. Bank management added that a Land Acquisition and Resettlement Plan was prepared by a team of resettlement experts, using EBRD donor financing, to help the Client manage land and livelihood impacts. This Land Acquisition and Resettlement Plan for Phase II identified affected properties and structures along the road corridor, which were within the project-affected area. They also clarified that the plan did not consider the Requester's resort.

It was Bank's management consideration that the EBRD Project was not related to the economic displacement concerns raised by the Requester. They argued that the adverse impacts could be the result of Covid-19 restrictions and the road closures under Phase I. In addition, they commented that according to World Bank data, the touristic sector in Mongolia had declined by

around 90% from 2019 to 2020. They also added that Mongolian tourism was highly dependent on international tourism, which was banned from February 2020 and just recently reinitiated in February 2022.

Finally, regarding the allegations of lack of information, Bank management explained that both EBRD and ADB made sure that local communities were aware of the Project and that several engagement activities (interviews, surveys, community consultations, etc.) were undertaken from 2017 to 2019 as per the Projects' Stakeholder Engagement Plan. Bank management also explained that a project grievance mechanism was established and managed by the Client and contractors for their respective sections.

5. Assessment Determination

During the Assessment stage, as required by the PAP, IPAM checked whether the Request effectively met the registration criteria established in its Section 2.2. It is IPAM's consideration that the Registration criteria are met by the Request.

During this stage IPAM reviewed the documents shared by the Requester, Bank management and the Client, met in person with the Parties and travelled through the relevant section of the Ulaanbaatar–Darkhan road. During the site visit, IPAM received confirmation from diverse sources that the road had been closed since the summer of 2019 and that, for one of the relevant sections, remained closed in the summer of 2022. Furthermore, the IPAM team drove to the resort from Ulaanbaatar and confirmed that travel time was three hours and that the condition of the temporary roads was extremely poor, with no signalling in the alignment.

IPAM also heard from different stakeholders that several accidents had taken place and that complaints from residents and travellers had been raised due to these accidents and other impacts generated by the Project.

After meeting with Bank management, the Client, and the Requester, IPAM considered that a Problem Solving initiative would not lead to a positive outcome as neither the Client nor Bank management considered that the concerns raised by the Requester were their responsibility. Given the voluntary nature of the Problem Solving, IPAM determined that in this case, Problem Solving would not be a suitable avenue to resolve the concerns raised.

6. Conclusion and Next Steps

Based on the activities undertaken during the Assessment stage, IPAM has determined that the Case will be transferred to the Compliance function, where the relevant team will assess the Case to determine if it is eligible for a Compliance Review based on the criteria set in the PAP.

A draft of relevant sections of this Assessment report was shared with the Parties to ensure that their perspectives have been accurately portrayed. After this, as per 2.3 (c) of the 2019 PAP, the Assessment Report shall be submitted to the Board and the President for information. The Case will be transferred to Compliance once the Parties are notified of its disclosure in the virtual case file [Case 2022/01](#) in both English and Mongolian.