

**Southeast Gobi Urban and Border Town Development Project**  
**Package A3, Consulting Services for Organizational and Human Resource**  
**Development, Capacity Building, Planning Reforms, and Master Plan**  
**Preparation and Cross Border Coordination**

# **Work Package 3 Final Report**

**Draft**



**Southeast Gobi Urban and Border Town Development Project**

**Package A3, Consulting Services for Organizational and Human Resource Development, Capacity Building Planning Reforms, and Master Plan Preparation and Cross Border Coordination**

**Work Package 3, Cross-Border Institutional Development Program**

**Final Report: Harmonizing the Development of Border Ports as Gateways to Global Markets**

**Draft**

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## ACRONYMS

AQSIQ	Administration of Quality Supervision, Inspection and Quarantine
ADB	Asian Development Bank
BCM	Border Counseling Meeting
CFCFA	CAREC Federation of Carrier and Forwarder Associations
CAREC	Central Asia Regional Economic Cooperation
CIFA	China International Freight Forwarders Association
CPMM	Corridor Performance Measurement and Monitoring
CBID	Cross-border Institution Development
CBP	Customs and Border Protection (United States)
DHS	Department of Homeland Security (United States)
EBRD	European Bank for Reconstruction and Development
EU	European Union
GATT	General Agreements on Tariffs and Trade
GSA	General Services Administration (United States)
GOM	Government of Mongolia
IBM	Integrated Border Management
IMAR	Inner Mongolia Autonomous Region (PRC)
IMTC	International Mobility and Trade Corridor
KIBM	Kyrgyz Republic Integrated Border Management Strategy
MASM	Mongolian Administration for Standardization & Metrology
MNT	Mongolian Tugrik
NAFTA	North American Free Trade Agreement
PPP	Public Private Partnership
PRC	People's Republic of China
RCI	Regional Cooperation and Integration
RKC	Revised Kyoto Conventions
SEW	Single Electronic Window
TIR	Transportation International Routiers
UBTZ	Ulaan Baatar Railway Joint Stock Company
UNDP	United Nations Development Program
WCO	World Customs Organization
WTO	World Trade Organization

## **Executive Summary**

Trade and transport are vital to the land-locked economies of Mongolia and the Inner Mongolia Autonomous Region of the People's Republic of China. The recurring challenge at the border crossings at Zamyn Uud-Erlian, Gashuun Sukhait-Ganqimaodao and Shivee Huren-Ceke is to narrow the gaps in trade logistics and urban infrastructure development on the two sides of the border. The unevenness of development creates delays that increase costs, impact supply chains for all enterprises, and hinder growth in trade and investment. The situation can improve through an institutional mechanism of greater collaboration and partnership wherein both sides can discuss problems; share information on projects, finance and training; and harmonize infrastructure and processes.

Progress has been made in recent years Zamyn Uud and Erlian formed a joint organization, “Border Counseling Meeting” (BCM), that started as a discussion on immigration and citizen issues and now has agenda items on trade and transport. Informal cross border meetings are conducted, albeit irregularly, in Gashuun Sukhait and Shivee Huren among border management agencies.

The further development of the border crossing points in the Southeast Gobi is constrained by the absence of a Mongolian national border agency. The assistance of such an agency is critical for prioritizing projects and seeking consensus among the various border inspection agencies and other stakeholders in management of border relations. The PRC has an internal lead border agency and without a Mongolian counterpart, which limits progress on border development. In order to strengthen the institutional framework for border management at the local level in Mongolia, it is also necessary to develop the national institutional framework for Mongolia's ports.

The Cabinet Secretariat has proposed the creation of a national Ports Administration, a new public sector entity that will take the lead role in coordinating border crossing management. The roles and responsibilities of the Administration have been provisionally defined in the draft Law on Ports, which is now under discussion in a parliamentary working group. However, the draft Law does not specify in detail the relationship of the Ports Administration to other GoM entities, the internal organizational structure of the Ports Administration, or the staffing and budgeting requirements of the Ports Administration. This report sets out proposals for all of the above.

It is proposed that the coordination among the agencies managing border crossing relations take place at the agency level. Here, the new Ports Administration will be a “leader among equals.” While none of the other four entities will report to the Ports Administration, they will all defer to the Ports Administration on matters related to border crossing management. The Ports Administration will be the lead coordination agency for the management of border crossing issues and the management of border crossing points.

An extensive set of international case studies from North America, Europe and other regions is presented in this report with a view to providing models that the emerging Mongolian cross border institutional set-up can emulate.

The intention is that the proposals in this report can be deliberated by the Parliament and Cabinet Secretariat with a view to finalizing the Law on Ports as well as drafting some implementation regulations for the law that may cover the same topics.

## 1 INTRODUCTION

The aimag and soum local governments in Dorngovi and Omngovi have limited capacity to plan and manage urban development in response to the needs of local citizens. Local governments in the two aimags currently have limited financial and technical resources, underdeveloped management systems and few trained staff to effectively carry out these tasks. Although the Ministry of Construction and Urban Development (MCUD, formerly the Ministry of Roads, Transport, Construction and Urban Development) has gained experience in the execution of urban development projects, it tends to deliver completed projects to local governments while providing little in the way of technical assistance or capacity building to develop urban planning and management capability. The technical assistance under Package A3 of the Project will therefore support a shift in responsibility for institutional and human resource development, urban planning and management and delivery of local infrastructure and urban services from the national government to the subject local governments.

Under Package A3, the AECOM team has adopted a “demand-driven” or “bottom-up” approach, under which the planning and institutional development actions forms an integral part of the overall project. The AECOM Team intends that execution of the A3 Package will help to drive change in those policy areas which are closely related to overall project execution, i.e., the role of national and local government in urban development, urban planning, urban service delivery and local government administration and finance.

In order to accomplish these objectives, Package A3 consists of three complementary packages of work which aim to improve the performance of local governments, the preparation and execution of urban planning while building the capacity for managing urban services in the two project aimags and four selected soums:

- Work Package 1: Support to Institutional Capacity Building (ICB) and Organizational and Human Resource Development (OHRD) for Umnugovi and Dornogovi aimags;
- Work Package 2: Support to National Strategic Planning and Urban Area Master Planning in the selected soums and aimags;
- Work Package 3: A Cross Border Institution Development Plan.

This is the Final Report for Work Package 3. This report is submitted in satisfaction of the following three deliverables:

- Deliverable 16, Case studies, summaries of existing reports and briefs on concession laws and best practices. See Sections 2, 3 and 6.
- Deliverable 17, Inception, Design Communication and Training Workshops. See Section 7 and Appendix A.
- Deliverable 18, Final Report for Work Package 3.

The scope of work of Work Package 3 includes the following nine tasks, as specified in the contractual Terms of Reference:

- 1. Identification of responsible representatives at the soum, aimag, private sector and their counterparts across the four borders;*
- 2. Assessment of the major issues across infrastructure, operational, environmental and institutional (policy) areas;*
- 3. Organise and agree on the identity of the cross border institution(s) and their working groups;*

- 4. Identify the mechanism required to quickly implement and prioritise projects deemed necessary from the cross border institutions as far as central government approvals are concerned;*
- 5. Assess the Mongolian Concession Law (Public Private Partnership), in particular as to how it harmonises with the PRC law;*
- 6. Estimate operation and maintenance budgets required for the long term use of the cross border development institutions and their means of disseminating information (such as by a joint website, for example);*
- 7. Coordinate the CBID program with other programs in the public and private sectors;*
- 8. Develop a suite of indicators to measure the effectiveness of the new institutions, and*
- 9. Organise workshops as required to develop and discuss findings and proposals.*

The geographic scope of Work Package 3 is the three border crossings of Zamyn Uud-Erlian, Gashuun Sukhait-Ganqimaodao and Shivee Huren-Ceke. The recurring challenge at these border crossings is to narrow the gaps in trade logistics and urban infrastructure development on the two sides of the border. The Chinese sides of the border are more developed than the Mongolian sides. The unevenness of development creates delays, increases costs and hinders growth in trade and investment. The situation can improve through an institutional mechanism of greater collaboration and partnership wherein both Zamyn Uud and Erlian can discuss problems; share information on projects, finance and training; and harmonize infrastructure and processes. Similarly, a cross-border organization is required for Gashuun Sukhait-Ganqimaodao and Shivee Huren-Ceke based on their unique trade characteristics.

The purpose of Work Package 3 is to present an institutional design for cross-border management at the local level. This report sets forth such a design, including recommendations for a national-level institutional framework that is consistent with emerging GoM proposals. In support of such recommendations, the report offers a detailed account of alternative international models and best practices for border management.

This report is written in five sections. Section 2 presents an assessment of Mongolia-People's Republic of China (PRC) border point management. Section 3 sets forth the proposed institutional framework (national and local) for border crossing development and management. International best practices in this field are presented in Section 4. Section 5 discusses the implications of the Mongolian concession law for border port development. Section 6 presents indicators for performance measurement, while Section 7 describes workshops and other consultations that were conducted under Work Package 3.

## 2 ASSESSMENT OF MONGOLIA-PRC BORDER POINT COORDINATION

### 2.1 Background

This Cross-Border Institutional Development (CBID) implementation builds on two Asian Development Bank (ADB) technical assistance (TA) projects in 2008-09 as part of the Regional Cooperation and Integration (RCI) strategy between Mongolia and the PRC. These were: “Harmonizing Border Development of Zamyn Uud and Erlianhaote,” (Dornogobi-Inner Mongolia Autonomous Region (IMAR) and “Harmonizing Border Development of Southeast Gobi, Mongolia & Inner Mongolia Autonomous Region, PR China,” (Umnugovi-IMAR), TA-6370 (REG). The outcome was a “Joint Dissemination Workshop” of business and government officials from both sides held in Hohhot, IMAR in April 2009. Leadership on both sides of the border strongly requested the need for cross-border institutions to improve efficiency of border trade and explore opportunities for shared assets as promoting regional public goods or fighting public problems such as the environment and disasters.

In summary, the two technical assistant reports of 2009 found that border trade increased 16-26% from 2003-08 across Zamyn Uud-Erlian and that trade volume in tons of coal exported from the small Tavin Tolgoi mine across Gashun Sukhait-Ganqimaodao was growing in volumes much larger than trade on the whole corridor from China to Mongolia to Russia across Zamyn Uud-Erlian. The unevenness of trade logistics and urban infrastructure development on the two sides of the border, and in particular the underdevelopment on the Mongolia side, was found to be contributing to delays that are detrimental to the growth in regional trade. As delays occur, higher trade-related transaction costs worsen the opportunity to handle increasing volumes of trade and there is less incentive for investments from the region and from foreign interests.

The reports described in detail the trade logistics operational, infrastructure, policy problems as well as the urban development issues facing the main Mongolian border towns for water and power as cross-border trade, mining and associated population increase.<sup>1</sup> It was concluded that border development strategies and master plans devised independently in the two aimags (Omnigobi and Dornogobi) and by IMAR (Erlian, Bayaonnao'er, Alashan, Baotou Leagues) needed harmonization and collaboration. All of these factors coupled with the financial crisis gave strong proof that both sides of the border crossings will benefit by forming a collaborative organization in the form of a joint border development commission or entity with working groups based on outstanding development issues. As a result, trade volumes will be better managed, urban development will spread more evenly across the border to Mongolia border regions and investments will follow to spur further economic growth.

Both reports presented international best practice frameworks for border town partnerships through, preferably, informal joint cross-border institutions. The joint border organization with committees, subcommittees, or working groups is a proven effective structure in many examples worldwide; some examples will be given in this report.

Harmonization is the guiding principle of all border management. Harmonization is best grounded in international legal agreements, which are implemented through internal and cross-border (bi-national) coordinating organizations such as the Border Counseling Meeting between Zamyn Uud and Erlian. Along with 78 other developing and developed countries, Mongolia (2006) and PRC (2000) are contracting parties to the Revised Kyoto Convention (RKC, International Convention on the simplification and harmonization of Customs procedures) which aims to modernize cross-border

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<sup>1</sup> “Harmonizing Border Development of Zamyn-Uud & Erlianhaote,” Development of Regional Cooperation Programs for Mongolia and the People’s Republic of China, TA-6380 (REG), R.L. Wallack, Dalaikhuu Unurjargal, Xiang Aibing, Asian Development Bank, May, 2009 and “Harmonizing Border Development of Southeast Gobi, Mongolia & Inner Mongolia Autonomous Region, People’s Republic of China”, Wallack, ADB, June, 2009.



procedures and processes. This legal framework began in 1947 with the General Agreement on Tariffs and Trade (GATT) and replaced by the World Trade Organization (WTO) to improve trade through harmonization at the borders. The World Customs Organization (WCO) is another international organization dedicated to improving movement of cargo across-borders and implementing the RKC.

*“Discussions on border agency coordination and cooperation have been based on GATT 1994, Article VIII-Fees and Formalities connected with Importation and Exportation in which Paragraph 1(c) recognizes ‘the need for minimizing the incidence and complexity of import and export formalities and for decreasing and simplifying import and export documentation requirements.’ Of all the agencies operating at the border, it is Customs authorities...responsible for introducing border coordination activities.”<sup>2</sup>*

These legal agreements are implemented actively by the ADB through the Central Asia Regional Economic Cooperation (CAREC) play a role in regulating MON-PRC cooperation in this field. Examples of post WWII Europe and the 1994 North American Free Trade Agreement (NAFTA) demonstrate that cross-border cooperation takes time to develop under an incremental, gradual and flexible approach. ADB reports emphasize that when progress in one area is not feasible, it helps pursuing others, as a way to show that cooperation can work to build trust.

The PRC and Mongolia cooperation is promoted and acted upon by high level agreements, trade, and investment since there is a common border of over 4,000 kilometers. As trading partners, presently, the PRC accounts for between 65.5 percent and 93.2 percent (2007-12) of Mongolian exports, and more than 25 percent of imports.<sup>3</sup> As for investments, the PRC is an important source accounting for more than 50 percent of total foreign direct investment (FDI) as of 2007 to well over US \$1.2 billion.

**Table 1 External Trade of Mongolia (2000-2012)**

Year	Total Turnover	Exports	Imports	Balance
2000	1,150.3	535.8	614.5	-78.7
2001	1,233.9	596.2	637.7	-41.5
2002	1,214.4	524.0	690.4	-166.4
2003	1,406.3	615.4	790.9	-175.5
2004	1,888.4	869.1	1,019.3	-150.2
2005	2,241.2	1,063.9	1,177.3	-113.4
2006	2,977.0	1,542.0	1,435.0	-107.0
2007	4,009.3	1,947.5	2,061.8	-114.3
2008	5,779.0	2,534.5	3,244.5	-710.0
2009	4,033.9	1,902.6	2,131.3	-228.7
2010	6,108.6	2,908.5	3,200.1	-291.6
2011	9,099.7	3,747.3	5,352.4	-1,605.0
2012	9,404.0	3,664.7	5,739.3	-2,074.6
CAGR (2000-12)	19.1%	17.3%	20.3%	-31.2%

Source: National Statistics Office (NSO) Mongolia, Bulletin, External Trade 2009.12 & 2012.12, USD CAGR=Compound Annual Growth Rate

Since 2002, ADB’s CAREC strategy has been implemented by the Transport and Trade Facilitation Program to benefit both Mongolia and the PRC. Since 2008, Mongolia’s CAREC-related lending portfolio consisted of 5 projects for US \$126.4 million (US \$88.8 million and \$37.6 million grant)

<sup>2</sup> Handbook of Best Practices at Border Crossings-A Trade and Transport Facilitation Perspective, Organization for Security and Cooperation in Europe (OSCE) and United Nations Economic Commission for Europe (UNECE), 2012, p. 36.

<sup>3</sup> National Statistics Office, Mongolia, Bulletin, External Trade, 2009 12, 2012 12.

including 4 roads and 1 Customs Modernization Project. In 2009-11, ADB planned to finance 4 infrastructure projects totaling US \$129 million. The TA 6370 grant amount was US \$800,000 over four sectors: trade logistics/border town, energy, transport, and Customs.<sup>4</sup>

Mongolia corridor 4a (Yarant at the PRC border to Ulaanbaishint at the Russian Federation border via Hovd) and 4b (Sukhbaatar-Ulaanbaatar-Zamyn Uud-Erlian) are important to the CAREC Transport and Trade Facilitation Strategy 2008-2017, which focuses on upgrading these key transport corridors and simplifying and harmonizing the regulations that govern cross-border trade. The CAREC Trade Facilitation Program has an institutional structure to deepen border process improvements and is of the following:

- Corridor Performance Measurement and Monitoring (CPMM)  
(tools used to gather data and about time and cost across corridor 4a and 4b)
- Cooperation Mechanisms: National Joint Committee (NJC)  
Regional Transport and Trade Facilitation Committees (RTC)  
CAREC Federation of Carrier and Forwarder Association (CFCFA)  
(possible source of funding & assistance for MON-PRC CB institution building)
- Capacity Building Program Priorities—Private Sector  
(develop supply chain management & logistics curricula & CAREC Centers of Excellence for training: education institution partnership)
- Projects: Border Crossing Point Improvements and Single Window development  
([www.carecinstitute.org](http://www.carecinstitute.org))

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<sup>4</sup> “ADB’s Assistance to Mongolia in Regional Cooperation,” Yuebin Zhang, Regional Cooperation Specialist, EARD, ADB, Ulaanbaatar, 29 January 2009.

**Text Box A. Recent Asian Development Bank Projects in Mongolia**

- 1.) Logistics Capacity Development Project 45264-001 \$900,000. Purpose: strengthen capacity of MRT for logistics sector planning, execution, management and for PPP capacity building
- 2.) South Gobi Railway Development Project Ukhaa Khudag coal mine in SG to Gashuun Sukhait border.
- 3.) Western Region Road Corridor Investment Program. Complete corridor 4a of CAREC-road section construction; connected road to rural areas; road maintenance and capacity development \$45,000,000
- 4.) Regional Logistics Development Project 41192-013. Grant \$5 million; loan \$40 million; counterpart \$26,640 million=\$71,640 million for multimodal transport system in Zamyn Uud to construct facilities for road-road; road-rail and rail to rail; terminal equipment/management system procurement and installation; strengthen capacity and catalyst to foreign and private sector to finance development of logistics in Mongolia (2013 start)
- 5.) Public Private Partnership Development 41203-0222. \$525,000 establish transparent institutional framework for PPPs which support private sector engagement for efficient and effectiveness of infrastructure service delivery
- 6.) South Gobi Urban and Border Town Development Project \$21.9 million. Dornogovi and Umnogovi institutional reforms and urban planning & design and supervise infrastructure improvements in water supply, wastewater, heating, roads, solid waste management, drainage and procurement and civil works in mid-2013
- 7.) Regional Road Development Project. Supplementary 35377-023 \$26, 640 million finance cost over runs: construct remaining 62 km 2 lane asphalt and concrete road of 430 km from Choyr to Zamyn Uud border (4 lane upgrade and U.S.A./ MCC constructing Saynshand to Zamyn Uud)
- 8.) Regional Improvements of Border Services (RIBS) Phases for Yarant, Zamyn Uud, Gashuun Sukhait and Shivee Huren for CAREC SEW CB points infrastructure of existing terminals (Mongolian Prime Minister did not approve)
- 9.) Transformational Mobile Banking Services 43569-012 TA \$450,000 m-banking
- 10.) Customs Modernization Trade Facilitation ongoing project and Tas

**2.2 Existing Institutional Arrangements**

Field work undertaken by the Package A3 consultant in 2012 and 2013 revealed that existing institutional arrangements vary significantly among the three project towns.

Zamyn Uud and Erlian have formed a joint organization, “Border Counseling Meeting” (BCM), that started as a discussion on immigration and citizen issues and now has agenda items on trade and transport. While having demonstrated some features of effective cross-border coordination, the BCM in Zamyn Uud-Erlian is constrained by the absence of a Mongolian national border agency. A national border agency is necessary to ensure coordination among the various players involved in border management: customs, border protection, immigration and inspection. Unless and until Mongolia creates a national institutional structure that can present a unified face to neighboring countries, the local agencies in the three Project towns cannot achieve the level of coordination and collaboration required for effective border management.

According to Law on Border, Head of Border Protection at ports act as Chairman of Port Council at each ports. Any relationship and coordination between independent agencies operating at ports are coordinated and managed by Resolution No.20 of 2003.

Border Protection Office holds meetings with counterpart in China once every month regarding own issues such as timeline for border crossings etc. Other agencies except customs do not hold any meeting with their counterparts. Agencies operating at the port are obliged to receive instruction from

the central offices for any meetings. But Border protection office has its instruction from the central office regarding rules of border protection, meeting agenda.

In Gashuun Sukhait, officials on both sides of the border are planning to meet in April 2013. Officials responsible for border protection, inspection, customs and immigration will attend. While officials agree on the importance of a cross-border coordination committee, no such formal committee has been created to date. The April meeting was proposed by the Chinese entities.

The Mongolian Immigration office office in Gashuun Sukhait has no formal communication with its Chinese counterpart, the Police. The only cooperation between the two agencies is on the construction of housing for Immigration staff. The Chinese Police, like the other three Chinese agencies involved in border management, area receive their instructions from the central government in Beijing. This hinders coordination on the ground in Ganqimaodao, the town on the Chinese side of the border.

On the other hand, the Customs offices in Ganqimaodao and Gashuun Sukkhait have joint meeting for customs affairs once every quarter. The purpose of the meeting is to discuss problems, identify solutions, and strengthen harmonization and cooperation. The two Customs offices only hold joint sports and recreational events.

Since 2009, there are also periodic meetings of customs offices from both sides of the border. This is known as the “Meeting of communicating chairmen of border crossing points.” The next meeting will be held in China. The head of Zamyn Uud Customs office is taking lead from the Mongolian side. The Mongolian members of the group in clued the Customs offices of Shivee Huren, Gashuun Sukhait, Bichigt, and Saynshand.

There are no regular joint cooperation meetings between the Professional Inspection offices from Gashuun Sukhait and Ganqimaodao. There have only been two such meetings in the last three years, according to local officials interviewed by the consultant.

Mongolian officials in Shivee Huren report that cooperation with their Chinese counterparts in Ceke is generally satisfactory. A joint border cooperation meeting between SH and Ceke ports, with representation of all key agencies, has been held since 2011. The main issues are how to manage the land and infrastructure in the port area and especially how to increase the through-put capacity of the port. The Chinese side has indicated that they are interested in seeking ways to cooperate in investing in new port infrastructure to that end.

The Mongolian Border Protection Office holds meetings with counterpart in China once every month regarding issues such as timeline for border crossings.

On the Mongolian side, consistent with the Border Law and Resolution No. 20 of 2003, the head of Border Protection acts as the Chairman of a Port Council. This facilitates coordination amount the Mongolian border agencies. Individual agencies hold their separate meeting with counterparts each month. The four Chinese agencies, however, all receive their instructions from Beijing, which hinders local cooperation.

The representatives of Mongolian border port agencies highlighted the following obstacles to cooperation:

- Lack of funding resources (no budget allocated)
- No permanent composition of the Port Council. Members are not appointed formally, often change.
- Lack of a set schedule for meetings.

In order to establish a more formal and effective border crossing coordination forum, the local officials proposed to revise and update intergovernmental agreement of 2004 between Mongolia and PCC on border regime of 2004.

### 2.3 Trade Logistics and Urban Infrastructure

Mongolia and PRC enterprises of all sizes have significant supply chain constraints in Zamyn Uud. Specifically, storage facilities (warehouses) both covered (dry and refrigerated) and uncovered are needed for dry goods (consumer goods) and perishables (fruit, vegetables, meat) and bulk goods (iron ore, chemicals and hazardous materials, wool, cashmere) across the mining, construction, retail, processing and logistics sectors. Inner Mongolia distributors, processing companies and logistics firms expressed a willingness to partner with Mongolian enterprises, but the lack of facilities is hindering progress to perform consolidation, bulk storage for possible discounting opportunities, and light industrial or value add functions. Furthermore, the lack of storage areas worsens the incidence of crime and corruption, since there are transshipment delays across the road-rail, rail-rail and road-road functions.

A second major project is to build paved or gravel roads and truck yards to withstand extreme weather conditions and 60-80 ton container trucks between the main access roads to the transshipment stations. It costs US\$88 (100,000 MNT - 2008) to pull a heavy truck out of the sand, which happens daily. Also, there is a need to upgrade the platforms to modernize from manual to mechanical operations in the transshipment process.

Finally, there is an urgent need to complete the asphalt-concrete road segment from Choyr to Zamyn Uud, part of the 4b CAREC corridor from Tianjin seaport to Ulaanbaatar to Russia markets.

A working group within BCM is needed to organize facts, determine the obstacles, construction schedule and time table for monitoring the completion under project management principles. (ADB Third Regional Road Project (2009) allocated US \$24 million for a 61.8 km road segment between well No. 62 and Zamyn Uud.) The Mongolian Logistics Association believes that improving these road construction issues will increase transshipment efficiency by 30%, and is more important than shortening the inspection trade facilitation delays. In addition, the lack of paved roads is causing Mongolian economic output damage to the nascent Mongolian wind power industry. For example, a recent shipment of expensive and sensitive wind power equipment sank in the sand and was damaged.

Supply chain management practices require synchronization of supply with demand through proper inventory and distribution with modern information technologies. Hence, Ulaanbaatar Logistics Center terminals and supporting facilities are as important as the proposed new Zamyn Uud Logistics Center for comprehensive product flows through the corridor 4b. Process changes already began in Ulaanbaatar by closing old terminals towards the development of a new logistics center. A leading Mongolian international freight forwarder and logistics company signed a memorandum of understanding (MOU) with 36 companies. The new facilities' project costs are US \$147 million based on demand forecast capacity estimates to 2017 with future phases possible. Both new logistics centers will employ modern intermodal container operations.

Zamyn Uud border development will need to satisfy increasing demand for water. The demand is for potable and processing water for residential, business and value-add or light industrial uses. Water is an important urban infrastructure agenda item for the BCM to include in their regular meetings. A holistic approach to border town development is sought by the local governments to combine trade logistics and urban infrastructure construction projects. The cross-border joint border organization, BCM, and similar organizations at Gashuun Sukhait and Shivee Huren have in the past few years progressed from simple local immigration and citizen issues to more complex commercial and urban issues with national importance.

In Shivee Huren, where there are about 120 residents, the following infrastructure problems were identified by local officials of border management agencies:

- The quality of local drinking water is poor.
- Shortage of housing for officials and people working at the port. Some people are living in shipping containers.
- A lot of dust
- Inadequate solid waste management. No waste collection vehicle and no landfill.
- There are two small steam boilers for heating. They should be combined to improve efficiency.
- No back-up electrical power generator
- No doctor in residence. There is only one medical check per quarter.

In Gashuun Sukhait and Shivee Huren, the Professional Inspection offices report that there is no laboratory. This impedes importation of Chinese food products, which are often not permitted to enter Mongolia.

The lack of a laboratory for coal inspection is also an impediment. The Chinese side has proposed to build their own laboratory to inspect Mongolian coal prior to import into China. This is especially important, they say, because of inconsistencies between Mongolian and Chinese coal quality regulations.

## 2.4 Trade Facilitation and Operations

Gashun Sukhait and Shivee Huren border trade is increasing at a rapid pace. Volume tonnage is nearly ten times than Zamyn Uud because of coal exports of Tavan Tolgoi. Volume was 6.5 million tons in 2011 and 8 million tons in 2012. This translates to 1000 trucks outbound per day at Gashuun Sukhait and Shivee Huren, compared to just over 100 trucks per day at Zamyn Uud. However, the Umnugovi Border Ports Administration also reports that their organizational capabilities are less established than Zamyn Uud as far as the GOM Plenipotentiary Representative Office is concerned. The PRC border administration across from these ports at Erlian, Ganqimaodao and Ceke is more developed and effective. Without a competent Mongolian internal border agency organization and a binational cross-border institution, then it will be difficult to make any progress on infrastructure and operational projects to improve border trade flows for all stakeholders involved. One Ganqimaodao logistics company claims that from transit times worsened over the period 2009-2013 because of lack of documentation harmonization.

There are many operational improvements to be made from the current manual processes to modern and inexpensive mechanical processes before and after the infrastructure projects in Zamyn Uud are completed. Current manual loading of construction materials (cement, bricks) from truck to rail cars are inefficient, hazardous to laborers and will deepen the problems associated with delays from increasing trade volumes. The output per labor hour will improve measurably, by introducing new (leased) mechanical equipment and practices based on international supply chain practices. These mechanical best practices are inexpensive and will ease the eventual long term use of shipping containers (intermodalism). The list components are (for more information, see [www.emodal.com](http://www.emodal.com)):

- Pallets, wooden or plastic
- Forklifts, motorized or hand operated
- New packaging of construction materials (compulsory)
- Rail boards for platform gaps
- Software package for truck registration and scheduling

Erlian equipment suppliers can partner with Zamyn Uud operators (UBTZ) for these project components. Mongolian 2004 Law on Financial Leasing (IFC Mongolia Leasing Development Project) is succeeding with financial leasing on the rise and can be a possible financing mechanism for the operational improvement projects (ADB possible funding source: REG IP1 Border Crossing Point Infrastructure and Investments, US \$500 million-CAREC).

A key recommendation in the 2008-09 TA 6370 was for a joint website for all trade and investment stakeholders of cross-border and corridor development. In 2012, the Erlian government introduced a trilateral website in Mongolian, Chinese and Russian languages. The website content needs enhancements to include the BCM schedule of meetings for the year in advance (2013), meeting agendas, meeting notes (public content) and other essential information for Zamyn Uud, Gashuun Sukhait, Shivee Huren and other border points at their uneven stages of development. Furthermore, the BCM can market the website ([www.elsw.gov.cn](http://www.elsw.gov.cn)) and provide public locations for Internet access to properly inform and allow for wide participation from businesses of all sizes and border town citizens at all border points.

The BCM can make great progress on both the cross-border inspection and Single Electronic Window (SEW) issues in their gatherings. The China International Forwarders Association (CIFA) recommended an expert group (working group or committee) to find commonality of processes among Customs and other border inspection agencies by using existing technologies, facilities and equipment with limited funds. The flow of products across the borders is impeded by paper documents and the lack of agreement between Zamyn Uud and Erlian from the Mongolian Agency of Standards and Metrology (MASM) and the PR China, Administration of Quality Standards, Inspection and Quarantine (AQSIQ) on standards, laboratory accreditation and testing. The expert group in the BCM can also resolve the issue of international accreditation of the Erlian laboratory (Certification and Accreditation Administration, (CAA), PRC). Another challenge is to connect the MASM to the electronic network of PRC Customs, supervisory and certification bodies so as to eliminate overlapping testing and facilitate smooth trade flows. Lastly, a standards, information enquiry and training center for implementing the SEW is required, as proposed by MASM in 2009.

Another important agenda item for the Border Counseling Meeting are the transport agreements. The BCM could document the delays caused by trucks at the borders with quantitative, verifiable data as evidence to report to respective national authorities. This plan will include security, registration, permits/licensing and joint training issues to enable trucks to cross over the borders up to certain points in the respective countries without time delays involved with transshipment. The border trucking ties into the Transportation Routiers International (TIR) issue; Mongolia acceded to the conventions, while the PRC has not. Respective trucking associations and logistics councils can work together on these issues of concern that are slowing and thwarting the flow of commerce. Specific areas of concern include the tri-party road agreement among PRC, Russia and Mongolia as well as any trucking problems now encountered at Zamyn Uud, Gashuun Sukhait and Shivee Huren for both imports and exports of cargo and the related vehicle and driver permits. The following Table 2 illustrates the cross-border costs burdening businesses at Zamyn-Uud and Erlian:

**Table 2-1. Costs for Cross-border Business in Zamyn Uud-Erlian, 2008 and 2013**

Task	2008 RMB	2013 RMB
Park in Special Area and Walk to Stores	40 (US\$6.45)	200 (\$32.25)
Load Goods onto Chinese truck (4 ton capacity)	30 (\$4.85)	2000 (\$323)
Use Chinese loaders (labor)	50 per man (\$8)	200 (\$32.25)
Empty Mongolian truck with Chinese translators	200 (\$32.25)	500 (\$81.65)
Use Chinese translators to apply	200	200
Loaded Mongolian truck returns to Mongolia	1000/20 tons(\$161)	2000 (\$323)
Enter China	5 per person (\$.80)	150 (\$24)
Hotel check out	5	5+5 police doc

Task	2008 RMB	2013 RMB
Exit China	5	150
Chinese suppliers never give quality certificates	950/per fake certificate	950 (\$153)
Freight forwarders ask five times more for all fees		
Hours of Customs and Custom brokers not coordinated. So, from 6 hours to 2 days to clear		
Wait list for one rail wagon per day	100 (\$16.)	100+
Truck drivers poor accommodations	In truck sleep	50 hotel (\$8)

Source: Ulaanbaatar construction materials supplier sourcing from PRC

Clearly, the issues at all three border crossings are becoming more complex. Originally, the main issues were high-level government formalities such as immigration and citizens crossing. Now, trade and commerce have national and regional ramifications to be framed and articulated by both a lead internal coordinating agency and by a joint bi-national border organization such as the BCM.

### 3 PROPOSED INSTITUTIONAL FRAMEWORK FOR BORDER CROSSING MANAGEMENT

This section sets out the proposed institutional framework for management of border crossings. The emphasis is on the border crossings at Zamyn Uud, Gashuun Sukhait and Shivee Huren. However, since the main obstacle to effective border crossing management is the absence of coordination among Government of Mongolia public sector entities, the proposed framework starts at the national government level. Proposals are also included for the local level (at one border crossing) as well as between Mongolian and Chinese entities on either side of the three border crossings covered under the Southeast Gobi Urban and Border Town Development Project.

#### 3.1 National Ports Administration

The Government of Mongolia is in the process of improving the institutional framework for border crossing management. As discussed in the previous section, the Cabinet Secretariat has proposed the creation of a national Ports Administration, a new public sector entity that will take the lead role in coordinating border crossing management. The roles and responsibilities of the Administration have been provisionally defined in the draft Law on Ports, which is now under discussion in a parliamentary working group. However, the draft Law does not specify in detail the following:

- Relationship of the Ports Administration to other GoM entities;
- Internal organizational structure of the Ports Administration;
- Staffing and budgeting requirements of the Ports Administration.

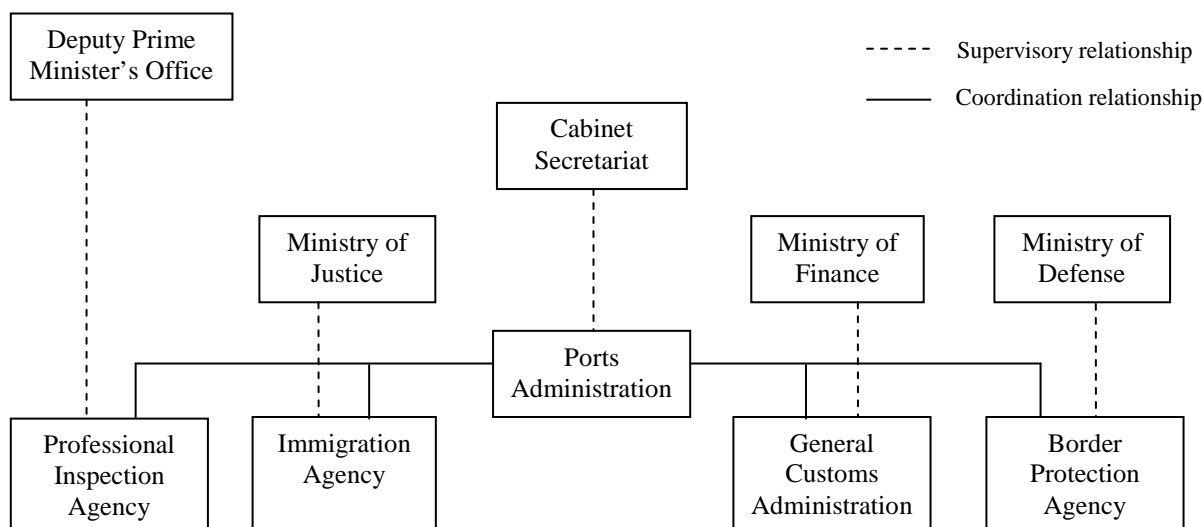
This section sets out proposals for all of the above. The intention is that these proposals can be deliberated by the Parliament and Cabinet Secretariat with a view to finalizing the Law on Ports as well as drafting some implementation regulations for the law that may cover the same topics.

##### 3.1.1 Position of the Ports Administration within the GoM Institutional Framework

The figure below describes graphically the position of the Ports Administration within the GoM institutional framework. Only the relations with relevant offices, ministries and agencies are depicted here. Two aspects are important here. First, what is the relationship of the Ports Administration to the other agencies responsible for different aspects of cross-border relations: the General Customs Administration, Border Protection Agency, Immigration Agency and State Professional Protection Agency? Second, the supervisory entity of the Ports Administration agency must be identified.



**Figure 1. Position of the Ports Administration within the GoM Institutional Framework**



The Ports Administration agency will report to the Cabinet Secretariat. This supervisory relationship is already specified in the draft Law on Ports. The other four agencies involved in border crossing management all report to different entities (three ministries and the Deputy Prime Minister’s Office). As shown in the figure, the institutional framework involves four different levels: the DPM level, the ministerial level, the agency level, and the local level, as represented by the Port Administration Offices (one at each border point, see Section 3.2 below).

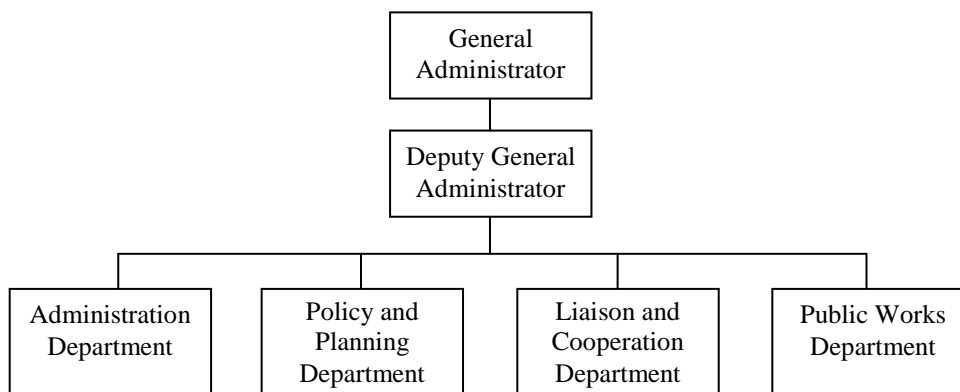
The coordination among the five agencies managing border crossing relations takes place at the agency level. Here, the new Ports Administration will be a “leader among equals.” While none of the other four entities will report to the Ports Administration, they will all defer to the Ports Administration on matters related to border crossing management. The Ports Administration will be the lead coordination agency for the management of border crossing issues and the management of border crossing points. When there are differing points of view on matters related to border crossing management between the different agencies, the Ports Administration will be in charge of identifying and implementing the best option for resolving the issue. The Ports Administration is therefore shown in the figure as being slightly higher in the institutional hierarchy than the other four agencies. This relationship in no way limits the ability of the other four agencies to carry out their designated functions. As in all management frameworks for complex institutional issues, the design is important, and the coordination carried out in practice by the leaders of the different entities is equally important.

### 3.1.2 Internal Organizational Structure of the Ports Administration

The following figure shows the proposed organizational structure of the Ports Administration. The Administration will be led by an executive team that includes the General Administrator for Ports and the Deputy General Administrator for Ports. The four departments will have the following functions:

- Administration: Human resources, financial management, administrative support to the executive team and the three other departments.
- Policy and Planning: Monitoring and analysis of cross-border trade, planning future expansion of infrastructure and services, monitoring and planning for logistics capacity.
- Liaison and Coordination: Management of relations with other national-level entities involved in border crossing management, management of relations with counterpart organizations in neighboring countries.
- Public Works: Implementation of capital improvement projects, management of existing border crossing works and facilities.

**Figure 2. Internal Organization Structure of the Ports Administration**



It is recommended that the Ports Administration be led by a full-time professional General Administrator of Ports, which is a member of the Mongolian civil service. This would require a change in the draft Law on Ports, which identifies the Chairman of the Cabinet Secretariat as the General Administrator. The position is demanding and requires the leader to work full-time in this role. The Administrator will report to the Chairman of the Cabinet Secretariat, which will satisfy the requirement for accountability to the senior level of the executive branch of government.

**3.1.3 Ports Administration Staffing and Budgeting**

The following table proposes a staffing plan for the new Ports Administration.

**Table 3-1. Staffing Plan for the Ports Administration (Tugrik)**

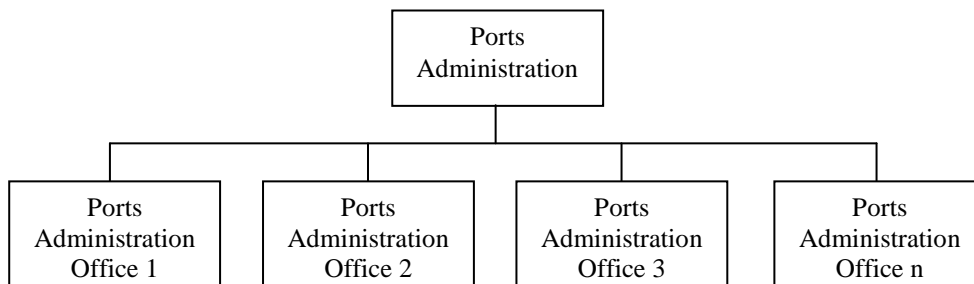
Department	Type of Staff	Number of Staff	Unit Cost (salary/mo.)	Total Salary Cost/Yr
Executive	General Administrator	1	1,500,000	18,000,000
	Deputy General Administrator	1	1,200,000	14,400,000
Administration	Management	2	850,000	20,400,000
	Technical	4	700,000	33,600,000
	Support	4	500,000	24,000,000
Policy and Planning	Management	1	850,000	10,200,000
	Technical	3	700,000	25,200,000
	Support	2	500,000	12,000,000
Liaison and Coordination	Management	1	850,000	10,200,000
	Technical	2	700,000	16,800,000
	Support	1	500,000	6,000,000
Public Works	Management	1	850,000	10,200,000
	Technical	5	700,000	42,000,000
	Support	3	500,000	18,000,000
Total				261,000,000

**3.2 Local Border Port Offices**

The national Ports Administration is responsible for creating and managing local Ports Administration Offices at every border crossing point in the country. Each border crossing will have its own Port

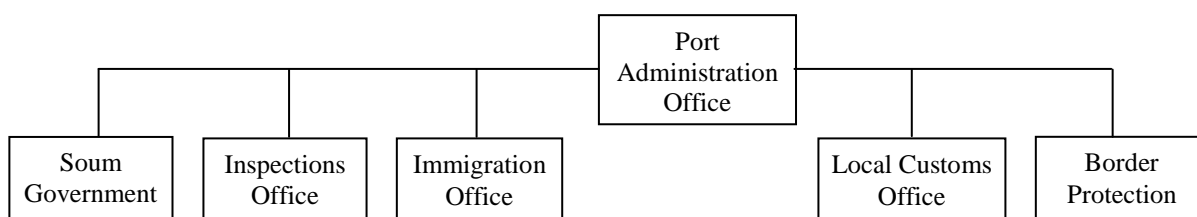
Administration Office (PAO). The PAOs will replace the current Plenipotentiary Representative Offices at the border points. There will be new Ports Administration Offices in three Project soums: Zamyn Uud, Shivee Huren and Gashuun Sukhait.

**Figure 3. Relationship of Ports Administration to Local Ports Administration Offices**



The relationship between the PAO and the other local offices of national agencies involved in border management will be similar to the relationship between the national Ports Administration and the head offices of the same agencies. That is, the Port Administration Office will be a “leader among equals.” While none of the other four entities will report to the Port Administration Office, they will all defer to the PAO on matters related to border crossing management. The PAO will be the lead coordination agency for the management of border crossing issues at that specific border crossing points. The PAO will also maintain close coordination with the soum government.

**Figure 4. Position of the PAO within the Local Institutional Framework**



Internally, the PAO will have three departments:

- Administration: Human resources, financial management, administrative support to the directors and the two other departments.
- Implementation: Monitoring and reporting on cross-border trade, planning future expansion of infrastructure and services, management of relations with local entities involved in border crossing management, management of relations with counterpart organizations in neighboring countries.
- Public Works: Implementation of capital improvement projects, operation and maintenance of existing border crossing works and facilities.

**Table 3-2. Typical Staffing Plan for One Port Administration Office (Tugrik)**

Department	Type of Staff	Number of Staff	Unit Cost (salary/mo.)	Total Salary Cost/Yr
Management	Director	1	750,000	9,000,000
	Deputy Director	1	600,000	7,200,000
Administration	Management	1	595,000	7,140,000
	Technical	2	420,000	10,080,000
	Support	2	300,000	7,200,000
Implementation	Management	1	595,000	7,140,000
	Technical	1	420,000	5,040,000
	Support	1	300,000	3,600,000
Public Works	Management	1	595,000	7,140,000
	Technical	10	420,000	50,400,000
	Support	2	300,000	7,200,000
Total				121,140,000

### 3.3 Cross-Border Coordination Committee

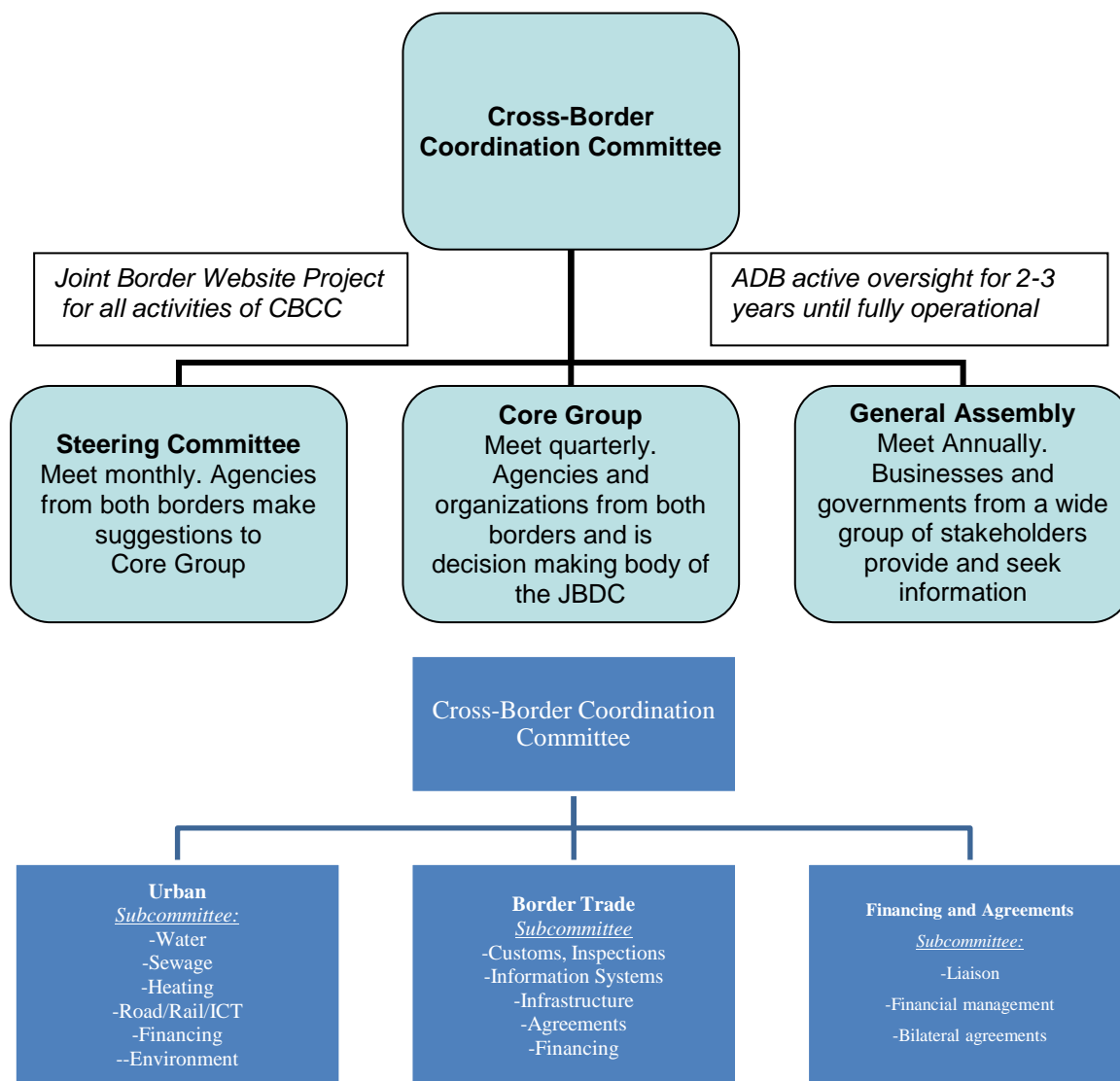
As part of the formalization of cross border management, it is proposed that Cross Border Coordination Committees (CBCC) be formed at each border crossing point. The CBCC will replace the current Border Counseling Meeting, where it exists (e.g., at Zamyn Uud). The CBCC will be the main coordination entity for management of border trade and transit by the governments on each side of the border.

The lead Mongolian representative on each CBCC will be the local Port Administration Office. The PAO will replace the current Plenipotentiary Representative Office at each border crossing. At the three border points participating in the SE Gobi Towns Project, the Chinese counterpart of the PAO will be the lead Chinese representative on the CBCC. The members of the CBCC at one Project border crossing point are likely to include:

- Local Port Administration Office (Mongolia)
- Lead border crossing agency (PRC)
- Local Customs office (Mongolia)
- Local Customs office (PRC)
- Local Inspections office (Mongolia)
- Local Inspections office (PRC)
- Local Immigration office (Mongolia)
- Local Immigration office (PRC)
- Local Border Protection office (Mongolia)
- Local Border Protection office (PRC)
- Soum government
- PRC local government
- Local police department (Mongolia)
- Local police department (PRC)
- Mongolia Railway
- PRC Railway
- MNCCI

- Mongolian Logistics Association
- Mongolian Transport Association
- Other PRC private sector representative

**Figure 5. Indicative Structure of a Cross-Border Coordination Committee**



### 3.4 Coordination with Existing Cross-Border Initiatives and Programs

There are few ongoing initiatives or programs involved in cross-border initiatives. The ADB’s CAREC program (Central Asia Regional Economic Cooperation) reports that there are no specific programs sponsored by international organizations in this area. In March 2013, ADB carried out a review of Mongolia activities related to regional economic cooperation. The mission was briefed by the Package A3 consultant on the status of border crossing management and the evolving institutional set-up.

The Ministry of Foreign Affairs reports that there was a Mongolia-PRC border crossing management meeting held in 2010. There have been no follow-up meetings, and there are currently no permanent institutions or programs for joint cooperation.

The most significant current initiative in this field is the Law on Ports, proposed by the GoM Cabinet Secretariat and currently being examined by Parliament. Other future programs will be well-advised to support this initiative, as it has the potential to ensure the coordination necessary for GoM to interact effectively with its Chinese counterparts in managing future development of the SE Gobi border crossings.

According to Ministry of Foreign Affairs, there was integrated meeting for China Mongolia border crossing points in 2010 for only one time. But there is no permanent institution or program for joint cooperation mechanism.

According to Unurjargal, ADB Advisor of CAREC (Central Asia Regional Economic Cooperation), there is no other specific program by international organizations recorded by her in the same field.

#### 4 INTERNATIONAL BEST PRACTICES IN THE FIELD OF CROSS-BORDER MANAGEMENT

Cross-border organizations have a long history of sharing information and strategies between neighboring sovereign countries. At present, Mongolia and the PRC have numerous cross-border meetings, both formal and informal, which are not unlike those of other countries in Asia, Europe and North America. International examples show that cross-border institution-building is best implemented as an incremental and bottom-up approach from the local levels. This process takes years to carry out. Based on research from best practices, the building of trust and a sense of bipartisan partnership are best engendered by informal institution building, yet information needs to be shared and communicated regularly. The Logistics Union of Mongolia finds that “information in Mongolia is not open, it is closed. The government should supply businesses with useful and correct information.”<sup>5</sup> This section will discuss cross-border organization between Mongolia and the PRC, examples in other global regions, and concepts and cases to be adapted to the Mongolia-PRC situation. As international observers have noted, Mongolia has precedents for success in this field: “The daughters operated a world financial organization that benefited almost everyone it touched. Through this interlocking set of kingdoms ruled by the daughters of Genghis Khan, the Mongols created a new world system based on a faster flow of goods and information than had been previously practical.”<sup>6</sup>

There are at least eight different cross-border organizations with meetings throughout the year between Mongolia and the PRC for various purposes. These include the Border Counseling Meeting; governor’s, police officers, and border inspection agencies with freight forwarders; general consulate; foreign relations; chamber of commerce and trilateral with Russia; and ad hoc meetings. There are similar organizational meetings in North America, Asia and Europe. However, there are also a few main cross-border organizations in more developed countries that are well-defined, somewhat informal in structure, yet very effective in finding agreement among various border agencies and businesses to prioritize projects and seek funding to inform central government authorities. One such organization is the International Mobility and Trade Corridor (IMTC) discussed below in this chapter.

There are many issues and facts that are best known by the local stakeholders to communicate to the higher levels of government in the form of policy statements and by particular projects. Transaction costs (tariffs, unilateral Erlian government taxes on freight forwarders, etc.) are a good example of how local actors at the borders can best gather information and communicate their infrastructure and trade facilitation needs to the central governments for better cross-border business and for regional investments and economic development.

<sup>5</sup> Prime Interview, “A. Munkhbold: Our Product Supply Methods Have Gone Back to Ancient Times,” B. Byambadorj, *The UB Post*, October 10, 2012, p. 7

<sup>6</sup> *The Secret History of the Mongol Queens: How the Daughters of Genghis Khan Rescued His Empire.* Jack Weatherford, *Broadway Paperbacks*, New York, U.S.A., 2010, p. 79

## 4.1 North America

In North America, since the September 2001 terrorist incident, there have been more concerted joint efforts to balance public security and control with international trade demands. The U.S. and Canada instituted programs to ease inspection burdens on traders with the Customs-Trade Partnership Against Terrorism (CTPAT) in the USA and the Partners in Protection (PIP) in Canada. Now the two governments are trying to harmonize and speed up those cross-border programs as well as agree on data elements in electronic documentation to the benefit of traders. As a result, government and business at the highest levels have joint action plans. Similarly, both Mongolia and the PRC have documentation needing data elements harmonization that can be best improved by joint action planning and the Border Counseling Meeting can organize the information and main issues to devise the joint action plan.

Trade across the 5,525-mile northern border of the U.S.A. with Canada and in the 1,933-mile southern border with Mexico was facilitated by building better infrastructures such as ports of entry (POE), residences for border agency workers, warehouse operations, industrial parks and customs offices. The efforts to improve cross-border cooperation and communication cannot be accomplished without established institutions to grapple with the commercial and security concerns. In the forming of the joint cross-border organizations, “building coalitions at the regional level can permit the border regions to join forces in opposition to (U.S.) federal actions, or to press for changes. Border stakeholder groups seek to reduce miscommunications and improve information flows between the central government and the border.”<sup>7</sup>

The International Mobility and Trade Corridor Project (IMTC) is an excellent example of an institutional framework with effective mechanisms for facilitating cross-border coordination, cooperation and communication among the different entities found in business and government. The IMTC is a forum organized by the Whatcom County, Washington state municipal government and comprised of U.S.-Canada (Cascade Gateway) coalition of business and government for the four border crossings of that region. This serves as a good example for the Border Counseling Meeting because of the local (soum) or regional nature of the IMTC to interface with the aimag (provincial/state) and national governments from both U.S.A. and Canada for border management.

The IMTC evolved over 15 years and in the first years met on a regular basis prior to being recognized and then started to receive funding to operate. Over this time, trust built up and agencies and businesses saw the benefits. IMTC recommends that chambers of commerce and industry associations (trucking, freight forwarders, etc.) are best to invite for attending the BCM regular meetings. The three mechanisms are:

- **General Assembly** comprised of over 200 business organizations and agencies from both sides and all levels of government that **meets annually (once per year)**. A suggestion for the Border Counseling Meeting is that IMTC organizers go to the border crossing and literally look at who is crossing the border and make a contact list of businesses to invite to attend the annual meeting and also conduct surveys of local businesses for meeting attendance.
- **Steering Committee** made of 30 agencies from both sides that **meet monthly** to make suggestions to the Core Group.
- **Core Group meets quarterly (every three months)** and is the decision-making body of the IMTC.

In fact, trade moving across these four crossings represents 3% of the total U.S.-Canada trade of US\$441 billion in 2009. Since 1997, the IMTC helped to collect US\$38 million from U.S. and Canada partners for projects designed to achieve the following goals:

<sup>7</sup> “Toward a New Frontier, Improving the U.S.-Canadian Border,” Sands, Christopher, Brookings Institute, 2009, p. 32-33.

- Organize communication between agencies that affect regional, cross-border transportation, safety and security
- Coordinate planning of the Cascade Gateway as a transportation and inspection system rather than as individual border crossings
- Improve and distribute traffic data and information
- Identify and pursue improvements to infrastructure, operations, and information technology ([www.wcog.org/Border](http://www.wcog.org/Border)).

The U.S. Canada border has another example of a joint border institution named the Transportation Border Working Group (TBWG). IMTC lead organizers from Whatcom County participate in the TBWG as well. Their website is an important tool for communicating and available in English and French languages ([www.thetbwg.org](http://www.thetbwg.org)). The Steering Committee is the lead organization of the TBWG comprised of co-chairs from the Transport Canada and the U.S. Federal Highway Administration with four seats for the U.S. Customs and Border Protection and Canada Border Services Agency (CBSA) for their border management roles. State (U.S.) and provincial (Canada) [aimag] parties also have membership. The Transport Canada (national) and FHWA provide Secretariat resources to help organize the Steering Committee (SC).

The website terms of reference is to clearly outline the mission and scope of the SC for:

- Planning of biannual plenary meetings in the U.S.A. and Canada
- Manage an official TBWG website
- Consultation and communication with TBWG subcommittees: Border Infrastructure Coordination, Technology, Trade and Traffic Data, Policy Coordination and communication of information between the TBWB and other organizations and regions.

Some other important mechanisms of the TBWG for considering by the Border Counseling Meeting are:

- Databases for: trade, traffic, infrastructure, and information about border crossings, and on-line border map.
- Newsletter and workshops
- Conference telephone call meetings by the Steering Committee
- Annual Action Plan document with details from each subcommittee posted on the website

The U.S.-Mexico border-crossing has a total 50 ports of entry and provide another excellent example for the Border Counseling Meeting (Zamyn Uud, Gashuun Sukhait, Shivee Huren) for possible adaptation since there are differences in languages and level of economic progress. In 2000, the U.S. and Mexico revised their 1994 memorandum of understanding between their respective national transportation departments to form the U.S.-Mexico Joint Working Committee (JWC). The JWC is a bi-national group to cooperate on land transportation planning and facilitation of efficient, safe and economical cross-border transportation movements. The JWC is a forum of communication and coordination and not a bureaucratic entity to interfere with decision making processes of Mexican and the United States and their states (aimags). Specifically, the JWC has responsibilities and participants as follows:

- Support the bi-national planning processes at the federal, state, local levels
- Coordinate the federal, state, local planning processes within and between both countries
- Encourage implementation of innovative solutions to improve border efficiency

Participants:



- Co-chaired by the U.S. Federal Highway Administration (FHWA) and the Mexican Secretariat of Communication and Transportation (SCT)
- Transportation professionals from FHWA and SCT
- U.S. Department of State and Mexican Secretariat of Foreign Relations (national)
- Four U.S. border states’ department of transportation and six Mexican border states
- U.S. General Services Administration (GSA)—border facilities construction; Customs and Border Protection (CBP); Environmental Protection Agency (EPA)

The key mechanism of the JWC is the two JWC coordinators. One is from the FHWA and one is from the SCT. The JWC coordinators have the following responsibilities:

- Ensuring the biennial (twice per year) work plans are executed by providing support, arranging meetings, making work assignments, tracking progress of activities, ensuring participation and developing project plans.
- Arranging the biennial meetings, ensuring adequate translating services (the most difficult task in cross-border relations) meeting space and participation, take the meeting minutes, track commitments and agreements from each meeting ([www.borderplanning.fhwa.dot.gov](http://www.borderplanning.fhwa.dot.gov)).<sup>8</sup>

The USA also has a good example of a lead internal or umbrella agency for all the border agencies. In 1997, the Border Station Partnership Council (BSPC) formed for a comprehensive national approach to border station planning management. It consisted of:

- U.S. Customs Service
  - U.S. Immigration and Naturalization Service
  - U.S. Department of Agriculture-Animal & Plant Health Inspection Sv.
  - U.S. Food and Drug Administration
  - \*U.S. General Services Administration (*GOM State Property Committee?*)
  - Federal Highway Administration-Department of Transportation (*Ministry of Roads, Transport and Systems, GOM*)
- \*lead agency

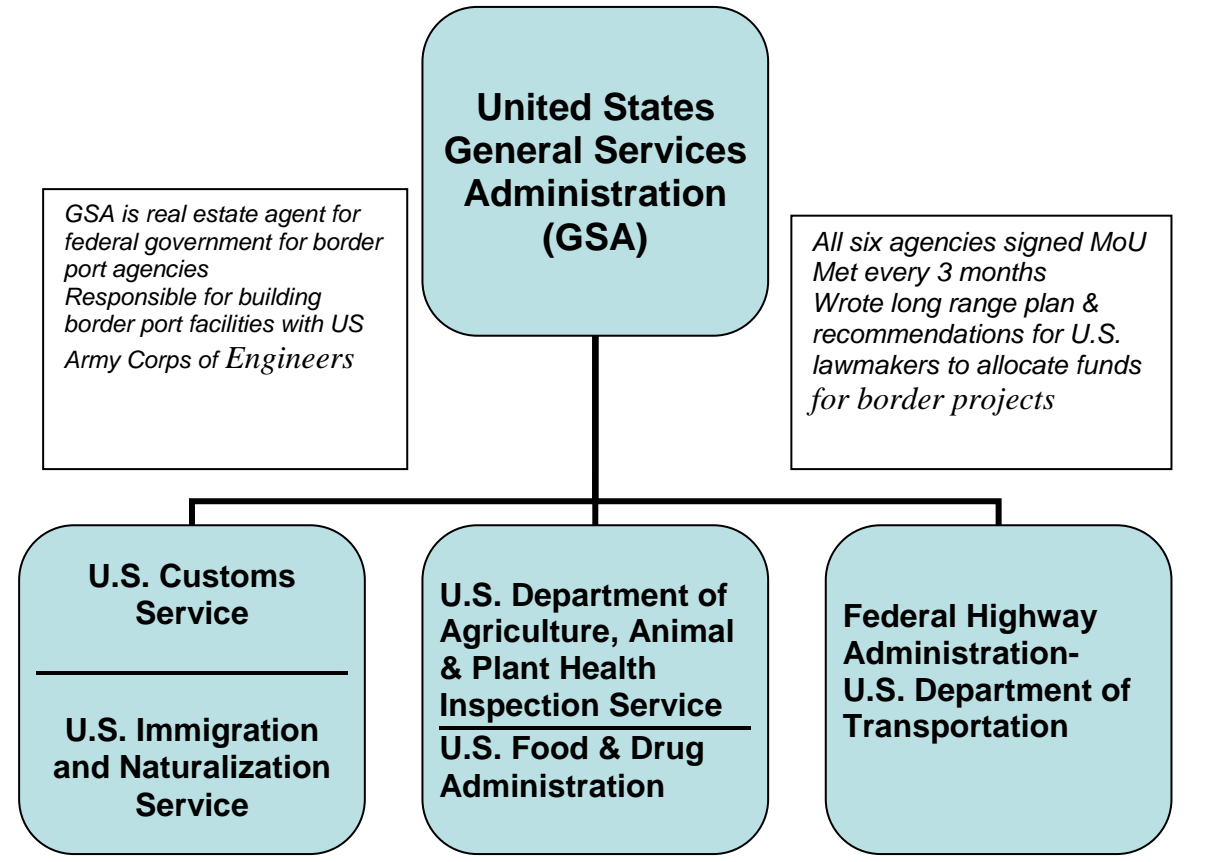
All of these agencies signed a memorandum of understanding (MOU).

The BSPC began to develop a national border infrastructure strategy and produced a report called: “Border Station Five-Year Long Range Plan.” The meetings were held quarterly (every 3 months). In 2003, the Department of Homeland Security (DHS) formed and within the Department is the Customs and Border Protection (CBP) agency that consolidated most border inspection functions into CBP. The function of the U.S. Government Services Administration (GSA) is still central to border infrastructure and facilities’ (trade and urban residences) construction. The United States Army Corps of Engineers (USACE) is also involved with the construction. Border stations are built by the GSA (real estate agent of the federal government for port agencies) and operated by the U.S. CBP within DHS. CBP tells the long range plan and GSA does it.

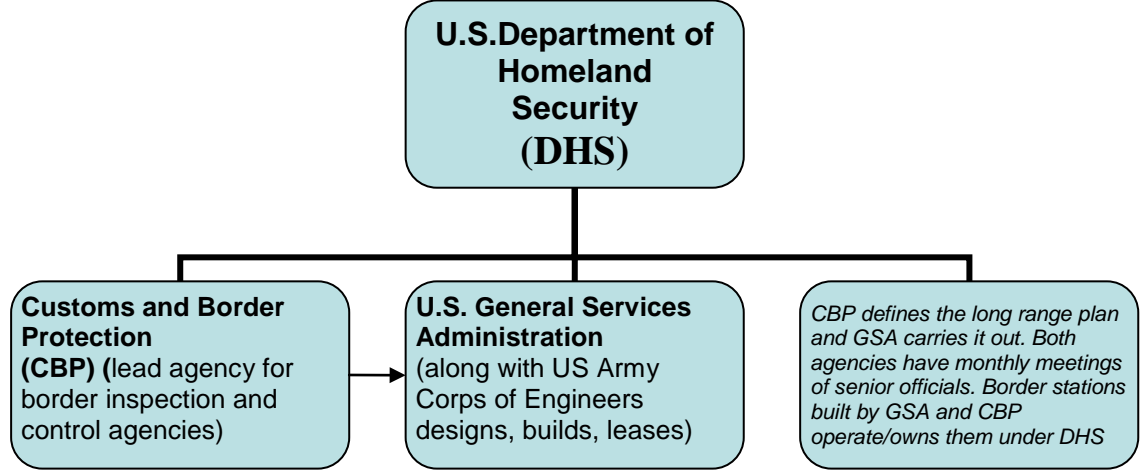
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<sup>8</sup> “Developing Cross-Border Economic Zones Between the PRC and Viet Nam: Institutional Development and Capacity Building, TA-7356 (REG), May, 2011, Asian Development Bank, R.L. Wallack, Wei Zhaohui, Nguyen Anh Thu, p. 10-12.

**Figure 6. United States Border Administration Framework 1997-2002  
Border Station Partnership Council**



**U.S. Border Administration Framework 2003-Present**



A good example of internal leadership and coordination among local, state and national border agencies is the border town construction of the Ajo, Arizona Housing Development Project for Customs and Border Protection (CBP) officers. The U.S. GSA agency prepared with a consulting firm the final environmental report for the DHS and CBP, Headquarters, Facilities Management and Engineering Division. The proposed CBP housing is in Ajo, Arizona, in southwestern Arizona, approximately 40 miles north of the U.S.–Mexico international border and the Lukeville Port of Entry

(POE). Twenty four hour service is required at this POE and needs to attract and retain Customs officers year round. The POE facility in Lukeville and Ajo Station in Why employ approximately 280 total staff.

The expanding capabilities and facilities will result in increased staffing of up to 410 employees in the near future. This staffing will consist of Office of Border Patrol (OBP) and Office of Field Operations (OFO) personnel. The OFO field office in Tucson, Arizona, submitted a request to the CBP Facilities Management and Engineering Division (FM&E) in 2007 for a solution to resolve the limited availability of housing at the Lukeville POE. The FM&E, the OBP, and the OFO *partnered* to conduct a Housing Program Feasibility Study completed by Garrison Architects in 2009. The study evaluated the existing conditions and needs, possible alternatives, and viable alternatives, and recommended a Preferred Alternative. The study is documented in CBP Housing Program Feasibility Study, Ajo, Arizona—Complete Report (Garrison Architects 2009). The alternatives and the evaluation of social, economic, and environmental impacts in this EA are based on the data developed in the 2009 CBP Housing Program Feasibility Study and a subsequent market survey, U.S. Customs and Border Protection Market Survey of Housing for the Area of Ajo and Why, Arizona, May 2010 (CBP 2010). The majority of the houses sampled by the CBP meet the minimum requirements that the CBP would rate under a “Poor” condition code (U.S. Department of the Interior 2008).

There is a waiting list of CBP officers seeking rental properties that has not been met by the local market. Less than 30 percent of the Border Patrol personnel use the local Why or Ajo rental markets. Most personnel use distant housing markets in Gila Bend, Casa Grande, Tucson, and the metro Phoenix area. The lack of available or suitable housing in the area results in staff commuting more than 100 miles one way to the metro Tucson area or up to 175 miles one way to the metro Phoenix area. The unreasonably long commute has resulted in staff retention issues (CBP 2010). The present Ajo area market is insufficient for the CBP housing demand and is not supplying quality housing desired by CBP employees. The goal is to provide safe, comfortable, and affordable housing for CBP personnel and their families within a reasonable distance of the CBP employee assignments at the Lukeville POE in Lukeville, Arizona, and Ajo Station in Why, Arizona. The ability to provide quality housing options to CBP personnel is important to the recruitment.

## 4.2 Europe

Another good example of BCID is from the Europe region: Sweden and Denmark. The local-regional-national, or bottom-up approach to joint cross-border problem solving can be instructive. The Oresund Region encompasses 3.6 million people of which 2.4 million live on the Danish side on 9, 782 square kilometers and 10, 914 sq. km. on the Swedish side of the territory. Moreover, there are differences in the two economic systems as far as wages in Sweden are lower than those in Denmark and Denmark has a higher cost of living.

The driving force for joint cooperation was the economic crisis and the need to devise a regional economic growth strategy, jointly to better position both sides to be competitive in the region and globally. In this bi-national example, new organizations are formed with the traditional. The traditional are the regional and local municipalities from both sides. The new cross-border institutions are the Oresund Science Region, Oresund Business Council, Oresund Chamber of Commerce and the Business Bridge in order to facilitate communication between enterprises across the border. The Oresund Science Region is important to identify and develop new industries for a niche in the global market and is comprised of co-operation between industry, public institutions and universities with platforms: Information Technology, Medico, Logistics, Environment, Food and Diginet.

These new cross-border institutions have no formal authority and serve to better organize the issues and articulate them to those authorities that can change laws and regulations at the regional and national levels. This bottom-up or networking approach is effective in that the new institutions provide input to the regional authorities such as the Oresund Committee of elected county politicians

from both sides. The Committee writes the policies, strategies and formulates the identity of the cross-border territory (Oresund Region) and has the relations with the European Union financing programs. “In time, these new institutions will be able to contribute to the further development of cross-border cooperation independently of national institutional structures.”<sup>9</sup>

The European Union (Integrated Border Management), the World Customs Organization (Coordinated Border Management), and the World Bank (Collaborative Border Management) are very explicit in their defining the frameworks for internal and bi-national cross-border organizations to effectively balance trade with security. Integrated Border Management (IBM) defines the domestic cooperation among border agencies of one country, and international coordination between neighboring countries. For particular note to Mongolia and China: “the interagency cooperation and coordination between different border agencies, is the core element of IBM, and a politically mandated and powerful agency to lead such cooperation is needed. Border agencies all have different strategic objectives, requirements, documentation, processes, and IT systems.”<sup>10</sup> In Mongolia’s case, there is a pressing need for an internal coordinating or lead umbrella organization for all border agencies as stressed by the EU IMB.

The European Union’s Integrated Border Management has concepts to aid the Cabinet Secretariat of Mongolia in the,” Draft Law on Ports”, Article 4, Border Administration, January, 2013. In summary, the IBM is a guideline for countries to implement border management based on three pillars, knowledge management areas and a strategy with an action plan. The following sources were useful to provide the summary of IBM as stated below: Government of the Kyrgyz Republic, Resolution, 16 March 2012, No. 183, “On Approval of National Strategy for the establishment and introduction of Integrated Border Management System in KR for the period up to 2022 and Action Plan”; “Draft Guidelines on the Coordinated Border Management, South Africa Development Community”, August, 2011; and “Integrated Border Management Strategy in the Republic of Serbia,”2006.

The Integrated Border Management (IBM) concept is defined and implemented by three pillars:

- 1.) Intra-service Co-operation
- 2.) Inter-agency Co-operation
- 3.) International Co-operation

IBM is also expressed by the World Customs Organization as Coordinated Border Management (CBM) and by the World Bank as Collaborative Border Management (CBM). All seek to achieve the same purpose: The European Commission Guidelines for Integrated Border Management in the Western Balkans (EC, 2007) define the concept as follows: “IBM covers co-ordination and co-operation among all the relevant authorities and agencies involved in border security and trade facilitation to establish effective, efficient and integrated border management systems, in order to reach the common goal of open, but controlled and secure borders.”

### 4.3 Asia

The border management and trade policies of Japan and Thailand initiated changes to their practices well before their implementation of the single electronic window (SEW). The foundation to implementation was an improved internal coordination and cooperation among the ministries and agencies. The top levels of government had ample proof after numerous studies that the SEW system

<sup>9</sup> “Integration Strategies and Barriers to Co-Operation in Cross-Border Regions: Case Study of the Oresund Region,” Hansen, Povlot, Serin, Goren, *Journal of Borderland Studies*, Vol 22, No.2, Fall, 2007, pgs. 48 & 51. (*Developing Cross-Border Economic Zones Between the PRC and Viet Nam: Institutional Development and Capacity Building*(Financed by the ADB, TA-7356 (REG)), May, 2011, R.L. Wallack, Wei Zhaohui, Nguyen Anh Thu)

<sup>10</sup> *Handbook of Best Practices at Border Crossings-A Trade and Transport Facilitation Perspective*, Organization for Security and Cooperation in Europe (OSCE) and United Nations Economic Commission for Europe (UNECE), 2012, page 37 and 41.

benefited business and government by improving services, lowering costs and for collecting more tax revenues.

Japan began policies to improve trade facilitation in 1978. The legal foundation was in the Law on Customs procedures for imports and exports to become paperless and exchange data electronically among all government agencies. Japan updated the law in 2008 and integrated documents among all the government agencies involved with international trade. The reengineering occurred over many years by 7 systems in 6 different ministries. Selecting the lead agency was the most important.

The Ministry of Finance became the lead agency because of their oversight of Customs Administration and for generating the most transactions. “For the coordination among the Ministries, the role of the Ministry of Finance, which is the Head Office of Japan Customs Administration and supervises the Nippon Automated Cargo and Port Consolidated System, Inc. (NACCS Center), was the most important. For example, the costs to set up and maintain the Common Portal were allocated to the relevant Ministries based on the ratio of the number of the traffics of their respective systems, and, as a consequence, over 90 % of the costs of the Common Portal were shouldered by the Ministry of Finance. For this reason, the Ministry of Finance could lead the discussion for establishment and upgrade of Single Window Service, and other Ministries followed the proposal by the Ministry of Finance since they could save their costs.”<sup>11</sup> The leadership and coordination by the Ministry of Finance is vital to the management of international trade and the related unified systems.

Among those other government ministries or agencies (OGAs) following the lead, collaborating and reaching agreement with the Ministry of Finance (Customs) are: Immigration (Ministry of Justice), Ministry of Health, Labor, Welfare (food sanitation), Ministry of Agriculture, Forestry, and Fisheries (animal quarantine and plant protection), Ministry of Economy, Trade and Industry (import/export control).

Thailand is another good example for Mongolia’s Cabinet Secretariat on improving internal institutional arrangements for border management. Thailand has 30 government agencies of which these are primary: Customs Department, Department of Foreign Trade, Department of Fisheries, Department of Disease Control, Department of Livestock and Port/Airports. A high level government policy mandate is followed by “institutionalizing the policy: transforming the policy mandates into normal routine management” for effective inter-agency collaboration.

The Thailand Cabinet appointed a National Committee on Thailand Logistics Development (NCTLD) comprised of permanent secretaries from economic related ministries and representatives from trade related associations. They are responsible for planning and monitoring sub-projects by each ministry and also appointed the Ministry of Information and Communication Technology to manage the projects. Another mechanism is the National Economic and Social Development Board appointed by the NCTLD’s secretary. The NESDB is necessary, especially as an example to Mongolia, since this entity assures continuity to border management programs in the occurrence of political leadership changes. The Cabinet also appointed the Customs department as the lead agency to coordinate with other agencies. The Customs agency appointed a working group of government and business officials to communicate issues.<sup>12</sup> In this case, the Thailand internal institutional framework worked towards providing an “effective inter-agency collaboration platform,” for a single electronic window program.

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<sup>11</sup> “Towards a Single Window Trading Environment, Japan’s Development of a SW case of NACCS,” United Nations Network of Experts for Paperless Trade in Asia and the Pacific, Brief No. 06, April, 2011, pg. 6.

<sup>12</sup> “Public Private Partnership for the Development of Infrastructure to Facilitate Trade & Transport, Establishing Interagency Collaboration in Large-Scale Systems Development, Somnak Keretho, Kasetsart University, Thailand, December 8-10, 2009, p. 5.

## 5 CONCESSIONS AND BORDER PORT DEVELOPMENT

As specified in the Work Package 3 Terms of Reference, an analysis of the Mongolian Concession Law with a view to enabling the use of concessions for border port management was carried out.

The Mongolia Concession Law of 2010 enables the granting of concessions in broad terms for construction and operation of border facilities and related infrastructures. However, the lack of specifics in the Law coupled with a fragmented policy and legal framework in the People's Republic of China (PRC) could hinder private financing and constrain demand for cross border development. Harmonizing and aligning the port administration regimes of Mongolia and the PRC could further protect and give more transparency to the domestic and foreign investors needed to finance cross border trade, transport, logistics, information technology and border town projects.

The Mongolia Law on Concessions of 2010 outlines the important elements for public private partnerships (PPP). These include: concession types; central and local government publishing of concession projects; procedures for tendering, bidding, granting and monitoring; investment risk and return rights and obligations between concessionaire and state agency/regulating authorities; government financial support or guarantees; and settlement of disputes. In order to meet international standards and best practices, especially for border town and trade logistics infrastructure projects, the Law will at least require a detailed set of implementing regulations. Amendments may also be required to make the Law more complete and comprehensive.

The European Bank for Construction and Development (EBRD) assessed concession laws of East Europe and Central Asia in 2007. The assessment set a level of compliance of concession legislation with international standards into seven categories. In summary, the Mongolia Concession Law meets the basic criteria. However, shortcomings are evident as shown in the analysis of other Central Asia Regional Economic Cooperation (CAREC) countries.

These include: listing of the sectors (concession objects or assets covered) considered for concession projects (i.e. power, water, telecommunication, trade logistics); clearer definition of the Government of Mongolia line agency(s) or ministries (central and local) instead of the current high-level institutional references such as “capital city,” “state authority” and “governors of the aimags;” length of concession agreements in years; repatriation of profits; international arbitration for settlement of disputes; accounting and reporting of concession agreements based on international standards. Improvements to the Law may increase private sector interest to participate in trade logistics and border town infrastructure projects.

The PRC does not have a general concession law, although has experience since at least 1994 with hundreds of PPPs on the basis of individual provinces seeking private investments. The fragmented legal framework is shown by the numerous different laws and statutes: Road Law (2004), Tendering and Bidding Law (1999), Land Management Law (2004), Contract Law (1999), and regulation on the administration of toll roads (2004) as well as environmental and construction quality management laws, policies and opinions.

The proper alignment and harmonization of border port administrations in Mongolia and the PRC, with particular reference to the Inner Mongolia Autonomous Region, would help to attract private investments for border town projects. The design and implementation of the border ports administrations can include a PPP unit for facilitating and managing infrastructure investments. The Mongolia Concession Law established the legal framework and the new Ports Administration the institutional and policy making entity to coordinate with other government authorities within and across the border to the PRC. An effective Mongolia border ports administration is especially important since the Concession Law is new and untested and the PRC PPP legal, judicial and administration is cumbersome, but with more experience to negotiate with Mongolia on border concession projects.

In summary, possible amendments to the Mongolia concession law are: listing sectors, identification of state authorities such as border or ports administration, a PPP unit within the ports administration, and international arbitration. These changes will bring the Law closer to international standards. Moreover, this will solidify the intent of the Law to attract domestic and foreign investors for the construction and operation of border facilities and/or infrastructure.

The underdeveloped regulatory framework has limited the number of infrastructure and facilities concessions in development or in operation across Mongolia. However, a list of proposed projects was recently circulated by the Cabinet Secretariat to relevant ministries for review and comment. According to Cabinet Secretariat representatives, the list includes some concession projects for Mongolian border ports. Feedback from the ministries is expected in the near future.

## 6 INDICATORS FOR PERFORMANCE MEASUREMENT

The Asian Development Bank, World Bank and World Customs Organization have useful performance measurement tools to deploy at the Project border crossings. In the future, the Cross-Border Coordination Committees could collect data used for benchmarking for Mongolia-PRC border point assessments and identifying proposed improvements. By definition, benchmarking is a business improvement process used by Fortune 500 multinational companies and organizations such as border agencies to reduce costs and improve services based on comparisons with best practices of other leading businesses or organizations. The data collected can be analyzed using Excel spreadsheets that can transform the data by using pivot tables into bar charts and other useful graphs to show what areas need improvements across border agency policies, infrastructure and operations and to have continuous improvement over time to border crossings.

There are a few methodologies to do benchmarking and the associated performance measurements in order to gather the data and compare to best practices. The steps include planning, by appointing a good project manager (possibly contract to an Ulaanbaatar survey company with an IMAR counterpart), execution, implementation and evaluation. The benefits will be to both border agencies and businesses because problems can be easily identified from the data and improvement projects can be described and implemented based on the best practices identified by the benchmarking. The WCO Customs International Benchmarking Manual provides further guidance as does Chapter 9 Measuring Border Agency Performance: Options for Benchmarking, *Handbook of Best Practices at Border Crossings-A Trade and Transport Facilitation Perspective*.

International donors and private equity investors will find performance indicators important to their funding projects and over time effectiveness of the projects. Already there are a few useful reports to use as a guide for more specific cross-border data collection and analysis at the Mongolia-PRC border crossings. The World Bank Group's *Doing Business Report* is compiled and published every two years to show comparisons by ranking among 185 countries based on 10 topics or indicators among which one is "trading across borders." The recent report, *Doing Business 2013, Comparing Business Regulations for Domestic Firms in 185 Economies*, showed improvement for Mongolia as 7th of the top 10 reformers in the world. Mongolia moved up the rankings from the last report by 12 places from 88 out of 183 to 76 out of 185 economies. The World Bank Group's Logistics Performance Indicators (LPI) report is another useful benchmarking tool for the Mongolia-PRC border crossings. This report is published regularly and has six components:

- Efficiency of the clearance process by Customs and border agencies
- Quality of trade and transport related infrastructure
- The ease of arranging competitively priced shipments
- The competency and quality of logistics services (transport and Customs brokers)
- The ability to track and trace shipments (information systems and technologies)

- Frequency of shipments reaching final destination on time<sup>13</sup>

Some other useful tools for measuring border performance are the Trade and Transport Facilitation in Southeast Europe (TTFSE) and sponsored by the World Bank. This program used performance indicators to set baselines, targets for improvement, assess performance and establish benchmarks and combining local border station performance with national performance ratios. The United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) and the ADB implemented a Central Asia and East Asia corridor approach tool using a *Time Cost Distance* methodology. This tool is also part of ADB CAREC Trade Facilitation as Corridor Performance Measurement and Monitoring (CPMM). The tool gathered quantitative and qualitative data from truck drivers on Excel files to identify and diagnose cross-border delays for continuous improvements on border operations, infrastructure and policies. This methodology shows charts in worksheets of Graph Time-Distance and Graph Cost-Distance with spaces to describe border delays.

Finally, the WCO has a *Time Release Study* which is computerized and measures Customs and other border agency performance at borders, yet only over a short time and relies on Customs declaration data and can only be done every 1-2 years. All of these tools are useful guides for the BCM and the Gashuun Sukhait and Shivee Huren border organizations to work with border agencies, trade and transport associations and the private sector for measuring border performance. The CAREC Federation of Carrier and Forwarder Association would be a valuable source of funding to implement the performance measurement tools on a regular and consistent basis and to focus on the local importance of projects needed to improve all major Mongolia-PRC border crossings.

It is proposed that the new Port Administration, once established, use the following indicators as the core of its national border port performance measurement system.

**Table 6-1. Proposed Performance Measurement Indicators for Mongolian Border Ports**

<b>Indicator</b>	<b>Unit of Measurement</b>	<b>Definition</b>
Border throughput period	Day	Average number of days from arrival of goods at the border town to departure of the goods from the counterpart border town to points inland (both sides and both directions)
Border crossing cost	USD	Average border crossing cost per shipment (both sides of border)
Border crossing cost efficiency	USD	Average border crossing cost per \$10,000 value of shipped goods (both sides of border)
Tracking effectiveness	%	Percentage of shipments that owners could track continually as they crossed the border (no breakdown in tracking ability and nothing either temporarily or permanently misplaced; both sides of border)
Resolution rate	Day	Average number of days needed to resolve infrastructure bottlenecks raised at Cross-Border Coordination Committee meetings
Process efficiency	Step	Number of steps required to clear goods across the border and onwards to points inland (both sides of border)

<sup>13</sup> *Connecting to Compete Trade Logistics in the Global Economy, The Logistics Performance Index and its Indicators, 2012*, The World Bank Group, JF Arvis, 2012.



## 7 WORKSHOPS AND CONSULTATIONS CONDUCTED UNDER WORK PACKAGE 3

The Package A3 consultant has undertaken extensive consultations with counterpart agencies in Ulaanbaatar and at the three border crossing points. In March 2013 Enkhsaikhan, Head of the Umnugovi aimag Plenipotentiary Representative Office and the consultant visited Gashuun Sukhait to meet with key local agencies involved in border crossing management. The following officials participated in the meetings:

- Batzorig, senior officer, head of Immigration office at GS
- Purevsuren, Border protection, Chairman of Port
- Khentii, Senior officer, GS Customs
- Naranbaatar, senior officer, Professional inspection

Another round of meetings was held in Shivee Huren with the following participants:

- Gansukh, Border protection, Chairman of Port
- Tulga, chief of Immigration office at SH
- Erdenebat, Senior officer, SH Customs
- Bayasgalan, senior officer, Professional inspection

The agenda for these meetings included current institutional arrangements for cross border management, the type and frequency of meetings among Mongolian and Chinese counterparts, the infrastructure problems and bottlenecks, and recommendations for improving the cross-border institutional framework. The main points discussed are summarized in Section 2 of this report. The recommendations were taken into account by the consultant in drafting the institutional proposals in Section 3.

Meetings were also held in the fall of 2012 in Zamyn Uud with the local office of the Plenipotentiary Representative and the relevant Mongolian organizations involved in border crossing management: Professional Inspection, Border Protection, Customs and Immigration.

In addition, a one-day workshop on Border development challenges and CBID at the project border crossing points (Zamyn Uud, Gashuun Sukhait, Shivee Huren) was held under Package 3 of the Asian Development Bank-financed Southeast Gobi Urban and Border Down Development Project in Ulaanbaatar, Mongolia on December 13, 2012. The workshop aimed to review with Mongolian stakeholders the draft report on issues and problems at the three border crossings and discuss solutions to develop a cross border institution. The workshop also sought to identify current problems and policy challenges from the perspective of Government, and private sector and NGOs. Over 35 participants attended the workshop (see Annex 1, List of Participants) from the public, private and academic professions operating and engaged with border ports in ZU, GS and GH. Workshop, consisted of two sessions, includes: Session 1: Current situation on border point's development, challenges – Public and private sector perspectives and Session 2: Cross Border Institutional Development. The details of the proceedings are presented in Appendix A.

## **Appendix A**

### **Proceedings of Workshop on Cross Border Institutional Development**

#### **Introduction**

A one day workshop on Border development challenges and CBID at the project border crossing points (Zamyn Uud, Gashuun Sukhait, Shivee Huren) was held under Package 3 of the Asian Development Bank-financed Southeast Gobi Urban and Border Down Development Project in Ulaanbaatar, Mongolia on December 13, 2012. The workshop aimed to review with Mongolian stakeholders the draft report on issues and problems at the three border crossings and discuss solutions to develop a cross border institution. The workshop also sought to identify current problems and policy challenges from the perspective of Government, and private sector and NGOs. Over 35 participants attended the workshop (see Annex 1, List of Participants) from the public, private and academic professions operating and engaged with border ports in ZU, GS and GH. Workshop, consisted of two sessions, includes: Session 1: Current situation on border point's development, challenges – Public and private sector perspectives and Session 2: Cross Border Institutional Development.

#### **Opening Remarks**

In her opening remarks, Project Director Oyun B. introduced the Southeast Gobi Urban and Border Town Development Project and explained the objectives of the workshop. She stressed the need to identify major issues associated with the border points and developing proposals for an institutional mechanism for border point cooperation including public and private sector perspectives. Director Oyun and welcomed contributions from the participants and said she anticipated that the workshop to produce constructive dialogue and positive outcomes.

Senior Officer of Cabinet Secretariat in his opening remarks briefly stated Government policy objectives to develop border town and border crossing points and proposal to implement integrated management in border points and stressed importance of the workshop to have opinions of the stakeholder.

#### **Session 1: Current Situation on Border Point Development and Challenges – Public and Private Sector Perspectives**

During the first session, participants discussed current problems and challenges at border points Zamyn Uud, Gashuun Sukhait and Shivee Huren from the perspective of both the public and private sectors. The Plenipotentiary Representative Offices of GOM in Zamyn Uud and Umnugovi presented statistics of total trade and economic flow throughout their respective borders, infrastructure problems associated with border facilities and roads, development challenges, demand for improvements, and recent progress achieved. Sukhbaatar highlighted problems at Shiveehuren; Khurelbaatar explained difficulties at Zamyn Uud and proposed potential solutions for these challenges.

Ms. Tsevelsaikhan briefed the participants on logistical and operational problems faced by businesses at Zamyn Uud.

Mr. Sodkhuu, Vice Director of Public Communication and Government Relations of Oyu Tolgoi company, discussed problems at Gashuun Sukhait border for businesses.

After the presentations of Mongolian speakers, Robert Wallack of AECOM presented international best practices on tools of improved management of border facilities, international trade, logistics

containerization, housing project model for border residence, etc. to showcase models for resolving problems for Mongolia.

## **Session 2: Cross Border Institutional Development**

During the second session of the workshop, GoM representatives introduced current policy on border management and border point development. Mr. Zorigtbaatar P. of the Cabinet Secretariat identified border development policy as one of ten main reforms the new administration is proposing. Border development needs a legal framework to be effective. In this regard, GoM has established a working group in Parliament to draft Law on Ports of Mongolia. Also he expressed needs and demand for establishing port development lead organizations in Mongolia.

Mr. Wallack presented and made recommendations regarding best practices of Cross border institutional development of North America and Canada borders, also presented organizational structure of USA lead organization of port management, which includes General Assembly, steering committee, working groups with specific area of responsibilities.

## **Q&A Session**

After presentations there was a Question and Answer session. The participants expressed their concerns and posed questions and clarifications. Representatives said there is inefficiency resulting from unharmonized activities and operations between border agencies and absence of integrated development approach at the ports. The participants agreed on the need for establishing a ports lead agency for achieving integrated management between border agencies and a harmonized approach to ports development.

The second main concern representatives expressed is to collaborate more closely with private sector, the main beneficiary of the ports development.

Dalai from Prestige Group stressed the need to find water supply source within 100 km, otherwise ZU would not be developed as much as Gashuun Sukhait. In his comment, he explained the need to undertake related study research in Galbiin Gobi and for Ministry of Road and Transportation and Ministry of Construction and Urban Development to deal with infrastructure projects. He said the key point is to coordinate and harmonize the operations of government agencies.

Mr. Munkhbold, President of Mongolian Logistics Association, expressed his opinion on Mongolia's potential to improve and increase port services efficiencies and performance two-fold without additional investment. He emphasized the need to consider how to improve efficiency and performance of current facilities and to organize and set up a port administration agency with integrated management. In his comments he suggested to organize a Logistics Unit under the supervision of a port administration agency.

Ms. Munguntuya, Head, Business Development Department of Tuushin Co., Ltd. commented on the lack of government support to the private sector and lack of coordination and harmonization between government organizations and agencies, which hinders good planning and implementation. And she supported the creation of a port administration agency.

Unurjargal D., ADB CAREC advisor, stressed the importance to set up a port administration and the need for domestic coordination between independent agencies. She suggested considering different organizational and funding models.

Mr. Zorigtbaatar, Cabinet Secretariat, explained the Government proposal to set up a port administration in charge of construction facilities, infrastructure, and management to improve coordination between government and private sector organizations and to facilitate their operations.

S. Tuvshinbayar, Customs General Administration, expressed the need for a ZU Port Development General Plan. Also he commented on current working environment at Gashuun Sukhait and Shivee Huren, where the amount of coal passing through increases each year. He stressed the need to solve infrastructure problems.

**Annex A**  
**List of Participants**

No	Name	Organization and Title
1	Mr. Zorigtbaatar	Senior Officer of Cabinet Secretariat
2	Ms. Ariunnyam	Officer, Ministry of Construction and Urban Development
3	Mr. Gantulga	Officer, Border Cooperation Division, Department of Neighboring Countries, Ministry of Foreign Affairs
4	Ms. Battsetseg	Vice Director, Neighboring Country Department, Ministry of Foreign Affairs
5	Ms. Namjilmaa	Ministry of Economic Development
6	Mr. Tuvshinbayar	Inspector in charge of Border, Customs General Administration
7	Mr. Erkhembayar	Border Inspection Division, State Professional Inspection Agency
8	Mr. Bekhbat	Plenipotentiary Representative of Government of Mongolia to ZU
9	Mr. Hurelbaatar	Senior Officer of Office of the Plenipotentiary Representative of Government of Mongolia to ZU
10	Mr. Sukhbaatar	Plenipotentiary Representative of Government of Mongolia to Umnugobi
11	Ganbaatar D.	Ded hurandaa, Border Protection agency
12	Ms. Unurjargal	ADB, Advisor of CAREC
13	Tsevelsaikhan	Head of Logistics and Barcode MNCCI
14	Sodkhuu	OT, vice director in charge of public relations
15	Ms. Munguntuya	Business development department, head of division, Tuushin
16	Sunjidmaa	Peabody
17	Gerelmaa U.	General Director, Landex LLC
18	Undrakh	Ikher Sutai
19	Ms. Gerel	Manager in charge of logistics, Wagner Asia
20	Mr.	Wagner Asia
21	Mr. Dalai	General Director, Prestige Group
22	Munkhbold	President of Logistics Association of Mongolia
23	Oyun B.	Project Director
24	Robert Wallack	Border Development Specialist, AECOM
25	Odonchimeg L.	Border Development Specialist, AECOM
26	Altanzul	National Consultant
27	Batzaya	Project procurement specialist
28	Mr. Manduul	Mon Energy Consult
29	Ms. Khulan	Correspondent, Mining Journal

## **Appendix B References**

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## **Appendix C**

### **Key Concepts in Border Crossing Management**

#### **Intra-agency Cooperation**

Cooperation among border agencies and within a given border agency are both important. It refers to interaction between: a. The different administrative departments of a ministry or agency at headquarters; b. The ministry/agency and provincial or regional centers; c. The ministry/agency/regional centers and the units working at the borders/inland; d. The various border or inland offices.

Examples include the top-down flow of standing or operation instructions (Departmental Instructions) from the head office to the border post, and the cooperation between a border veterinary office and inland veterinary authorities in order to facilitate the secure transshipment and transit of veterinary consignments. Information of strategic value gathered at the borders needs to be forwarded to the head office and the results of its analysis should be fed back to the borders to improve operations – as happens with information for risk management which is used to build risk profiles. Intra-agency cooperation therefore describes the efficient internal cooperation and management of processes, information and resources within a ministry or agency responsible for specific tasks: (a) Between local, provincial and national levels (vertical cooperation); (b) Between different units of the same levels (horizontal cooperation)

The cooperation takes place among all the border agencies of a country from day to day operations and for long term strategies. Inter-agency cooperation takes a horizontal approach based on cooperation and coordination between offices of the different agencies at the border (local level), as well as among the provincial and headquarters offices of the agencies.

#### **International Cooperation**

This is the cooperation that the Zamyn Uud and Erlian, Border Counseling Meeting is seeking. International cooperation, the cooperation between agencies of different countries, exists at the local, regional and bilateral/international level. At the border post level there should be cooperation between officials on both sides of the border, like between Customs officials. This cooperation should focus on improving day-to-day operations. It can range from information exchange to solution of possible operational challenges in the interest of cross-border facilitation of legitimate cross-border movements. It should also include meetings between neighboring countries at the provincial and national levels to discuss matters such as working hours for border posts, coordination of border patrols on both sides of the border, setting up joint patrols and operations, and creating common contact offices to improve communication and exchange of information. Through regional and multinational cooperation, information can be exchanged more easily and regular training seminars can be organized.

There are guidelines to implementing the IBM or CBM and the Zambia and Zimbabwe document offers useful information for the government of Mongolia (GOM) Cabinet Secretariat.

#### **Key Management Areas (KMAs)**

For each pillar, i.e. intra-agency cooperation, inter-agency cooperation and international cooperation, there are detailed guidelines in six KMAs, namely:

- Legal and regulatory framework, which describes the necessary legal basis for cooperation and information exchange (current stage of GOM and necessary to smooth relationships)

among the different border agencies and their distinct “statutory authorities”), i.e. Customs, State Inspection, Border Patrol, and others in Mongolia.

- Institutional framework, which provides the organizational setting for introducing IBM/CBM
- Procedures for cooperation
- Human resources and training which deals with recruitment and educational/training issues in the framework of coordination and cooperation
- Communication and information exchange, which provides guidance on how best to create standardized and efficient flows and exchanges of information
- Infrastructure and equipment, which explains how equipment and facilities can support cooperation and coordination at all levels

Cabinet Secretariat and the GOM are undergoing “organizational change management” and “business process reengineering” among the border agencies and ministries. This is also occurring and occurred in many other countries worldwide. Much of the information found is related to how countries adapt and make institutional changes to implement the Single Electronic Window (SEW) and each country has problems negotiating with and finding agreement among the different border agencies and their “statutory authority.”

The Customs agency is usually given the leadership function among border agencies, but also special committees are established in some cases. The key factor is that each country has high level political mandate to make the changes. The Prime Minister is often the chairman and routinely leads and plans.

In Mongolia, the Port Administration Office and/or the Port Council would improve border management implementation by following the KMAs. The “communication and information exchange” are very important to successful “intra-service/agency” and “inter-agency” cooperation, coordination and collaboration before endeavoring on “international cooperation which could involve the single electronic window program among other integration programs.

Furthermore, the Kyrgyz Republic IBM System, Action Plan outlines priority activities for implementation and stipulates, “Development of principles and requirements for information programs and databases.” In addition, the United Nations Economic and Social Commission for the Asian and Pacific called for (i) Information and communication systems, which include electronic data interchange systems, scanners and vehicle weighing equipment in Annex II of the “Finalized draft Intergovernmental Agreement on Dry Ports,” in October, 2012. A data collection system at all the border crossings of freight (volumes, value), vehicles, and persons is necessary for decision making in border management for the Cabinet Secretariat’s new Port Administration Office and Port Council to consider in management of dry ports. International best practices in developed countries have national educational institutions involved in data collection, analysis, and reporting for improving border crossing development.

Zambia and Zimbabwe’s IBM institutional arrangements are instructive in order to further the Mongolia new Border Port Administration and Port Council composition. The Cabinet Secretariat can appoint a National CBM Coordinator (NIC).

1. The NIC should be provided with the necessary political, administrative and financial support to facilitate the CBM process, and to include other ministries, institutions and agencies as necessary. He/she should also be provided with office accommodation and secretariat services.
2. The NIC should identify the key stakeholders in the area of border management that will constitute the ad hoc core team for the development of the CBM strategy and action plan. Representatives of the identified stakeholders will make up two essential bodies for the planning process, namely:



- a. National CBM Steering Committee (NISC): a high-level inter-agency committee at policy level for defining the overall goals
- b. CBM Strategy Implementation Committee (ISIC): a committee of inter-agency working groups at operational/expert level for the translation of the overall goals into concrete activities. The Inter-agency working groups have the following composition, tasks and procedures:

Permanent Members

- Chair (upon agreement between all partners, possibly Ministry of the Interior)
  - Ministry of Foreign Affairs - Visa-regimes
  - Ministry of the Interior – Border Guard
  - Ministry of Finance – Customs Directorate
  - Ministry of Agriculture – Veterinary Inspection
  - Ministry of Agriculture – Phytosanitary Inspection
- Associated Ministries and State Institutions
- Ministry of Health

If one of the members of the IAWG cannot attend a meeting, he/she shall nominate a representative who will take decisions on his/her behalf.

Tasks:

- Coordinates the national task forces;
- Reviews and adopts the reports of the task forces, as well as the consolidated reports;
- Ensures commitment at higher level and continuous communication with the responsible decision-makers within the government;
- Ensures communication with and involvement of other relevant institutions upon need (e.g. Ministry of Tourism, Transportation, Development, Justice, Foreign Affairs, Finance, Labor, Regional Integration, Environment, and Chamber of Commerce).

Focal points in each of these institutions will be responsible for distributing information about the on-going activities of the project and channeling input and comments of their organization to the work of the IAWG. The Focal Points will be asked to join the meetings of the IAWG. Decisions of the High Level CBM Interagency Working Group are reached unanimously.

The Strategy and Action Plan for the IBM implementation is devised in the planning stage by reporting from each agency or ministry as to the needs, gaps and goals in improving border management. After the IBM strategy and action plan are written, then there is an ongoing process to revise the strategy and action plan based on changing circumstances. The methodology is by: Review, Monitor and Evaluate the implementation of the IBM strategy and action plan. Some suggested indicators are (SMART):

- i. Specific: What is actually expected to change?
- ii. Measurable: How will it be known if the goal has been reached?
- iii. Attainable: Is it realistic and likely to be achieved?
- iv. Result-oriented: Are the results set meaningful?
- v. Timed: By when can the goals be expected to be achieved?

Integrated Border Management principles and guidelines are useful to Mongolia in devising policies for border management. However, the internal border agency institutional arrangements may improve effectiveness by considering and aligning institutions with those across the border such as in the PR China. Inner Mongolia's internal border management is well structured. At the top is the Chairman of All PRC General Customs Administration & Chairman of the PRC Border Administration. Beneath them are the Vice Chairmen, then the Inner Mongolia Border Administration Office, then the Chairman of the Erlian Border Administration Office beneath the Inner Mongolia Border

Administration Office. The Erlian city government has a role among several other branches in this border management framework. This organizational structure of border management is to monitor operations of inspection agencies and other border agencies and *to coordinate and harmonize their activities*.

At the Inner Mongolia, PRC-Russia border, the Inner Mongolia, PRC, Manzhouli Port office is under Manzhouli municipal government responsible for the basic infrastructure and the services.

1) Manzhouli Customs: supervision and management for import and export cargo, vehicles, transit passengers, luggage, collecting taxes, and trade statistic etc. Its higher level is The General Administration of Customs. 2) Border inspect station: For the monitoring and management of transit passengers, the safety management of restricted areas of the port. Its higher level is Inner Mongolia Border inspection station. 3) State administration of Inspection and Quarantine. Inspection and Quarantine for transit cargo, passengers, and animals, quality inspection of import and export goods.

In addition, the GOM Cabinet Secretariat border administration policies can receive assistance from the EU and United Nations Development Program (UNDP): Border Management Program in Central Asia (BOMCA), [www.bomca.eu](http://www.bomca.eu). Institutional reform is one of the main components, ***“Support the Central Asian countries to adopt and implement the principles and practices of European IBM approach in their border management, including their border strategies and implementation action plans.*** The members of BOMCA are: Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan. The EU and UNDP fund the budgets to improve cross-border trade and security.

In Mongolia, the National Trade and Transport Facilitation Committee (NTTFC) found its legitimacy in the 2008 “Transit Mongolia” and “Action Plan” resolution as the lead border management agency. However, since 2009, the NTTFC lost support from the Ministry of Road Transport and Urban Development and linkages to the central government due to the change in government. The NTTFC also failed for lack of funding and leadership both within and from the central government. As indicated previously by the EU IBM and US GSA examples, the lead border management agency needs strong backing from the central government. At present, the new Mongolian government and ADB are planning to implement the Single Electronic Window (SEW) project with a Steering Committee for harmonizing trade and transport operations along with a revised mandate for the NTTFC, possibly.

The examples from this report and the new government’s importance to border management (Policy on Border Management and Development and two Border Master Plans) will solidify the roles and responsibilities of the NTTFC or another long standing internal mechanism for border management. Once this is established, then the lead intra-agency border management organization can communicate on a regular basis with the BCM and with the Gashuun Sukhait and Shivee Huren border organizations which will also make bi-national communication and project implementation smoother with the PRC.

Since 2008, the Border Counseling Meeting initiated a very important joint organization to cross-border urban and trade infrastructure planning, project management and construction. As described in Chapter II Assessment of Major Issues, the problems of the poor infrastructure cannot cope with the increasing volumes and values of trade which results in worsening trade and investment for businesses of all sizes. One large multinational Mongolian business expressed the situation: “The Zamyn Uud border crossing is the major crossing for both our imported machines and spare parts. Delays at this border crossing are frequent and can cause significant dislocation to our business. Improved processing procedures would greatly assist cross-border trade flows as would access to bonded yards and covered storage which would enable equipment and spare parts destined for the Gobi region to be stored in Zamyn Uud.”

At present, the BCM is meeting more frequently by three times instead of once a year. The informal format of the BCM is consistent with best practices in developed countries, yet further implementation using best practices is advised. One important mechanism is to appoint one or two persons to more actively coordinate and communicate all the major issues in categories: policy/institutional; urban and trade infrastructure projects; trade facilitation & operations, and environment as outlined in this report and to assign working groups to each.

By example, the structure of the IMTC and the JWC offer guidance to the BMC. Moreover, a few years ago there were CBP and GSA (USA border agencies) construction projects at all four Cascade Gateway border crossings. The IMTC served as a perfect forum for these projects by tracking and informing the status of these projects in the periodic meetings of all stakeholders and by posted information on the joint website. Some other developed country characteristics to more successful BCM implementation are:

- E-mail Distribution-In practice, the IMTC compiled over time a list of participants and their e-mails for informing on new meetings in email notices.
- Annual Schedule-In November, 2012, the 2013 schedule is set and posted on the joint website. Meetings of annual, quarterly and monthly are set for every Thursday of the month except August and December and times are from 9-12 in the morning.
- Agenda-two weeks prior to the meeting, the agenda is posted on the website and set by the IMTC leaders, or participants can add to the agenda: status of projects, special topic focus, and can invite experts to the meeting on that topic for discussions. Usually, the meeting starts with current event updates by all the agencies. After the meeting, a summary is written and approved by the Steering Committee, then posted on the website.
- Committees/Subcommittees and Working Groups-Formed as needed. In meetings, organizers pass around a piece of paper or e-mail sent by participants to add subcommittee on rail, for example. Subcommittee meetings are in the afternoon.
- Benefits to Business-Businesses depend on well functioning borders for their businesses and agencies can be more efficient, if they know business issues to implement. A change in policy and operations can show in performance metrics at the border (see Chapter V). For example, adding a new truck lane reduced wait times from 50 minutes to 12 minutes per truck.
- Website, Budget and Remote Meeting-The joint website is essential to the communications of BCM, Gashuun Sukhait and Shivee Huren border crossing progress and information. In July, 2012, the Erlian government started [www.elsw.gov.cn](http://www.elsw.gov.cn) in Chinese, Mongolian and Russian languages. At present, the Erlian city government, Commerce bureau funds the website and employs a technology company to host the website on their computers. The Mongolian National Chamber of Commerce and Industry and the GOM Plenipotentiary Representative Office in Zamyn Uud (Gashuun Sukhait & Shivee Huren) can gather the information and data needed by the Erlian commerce bureau to add Mongolian content to the website. The MNCCI Erlian representative officer can coordinate the process of gathering the information, translate (Mongolian, Chinese, English) and post onto the website. The following agencies will be contacted for local and national information: Customs, Professional Inspections, Border Protection, Immigration, Railway, government of Zamyn Uud and businesses. Estimated costs and time by the Erlian MNCCI officer are: website coordinator, 1 million MNT (US\$ 715.) and website coordinator assistant, 500, 000 MNT (US\$ 360) for three hours per day of available time for the website content tasks.

The IMTC and the JWC websites offer good examples for the Mongolia-PRC in their respective websites and as outlined in this report. IMTC ([www.wcog.org/Borders](http://www.wcog.org/Borders)) had minimal start up costs. The hours needed to maintain the website are minimal of one to four hours per month.

In the early stages, not much funding is required for the website, BCM and other border-crossing organizations. The IMTC does not ask businesses to pay fees for joining and the success of IMTC is based on the lack of formal structure (no by-law or terms of reference) so that agencies and businesses can attend meetings and speak freely because discussions are informal and “off the record.” However, after the BCM is more established and better recognized, then it will be easier to apply for funding to operate the meetings and website from PRC and Mongolia governments and from international donor agencies such as the Asian Development Bank CAREC program.

Eventually, the IMTC received central government funding for a few years to be used to operate the website and other functions (pay salary of two full time and other administration costs). Proving the benefits to the businesses and the regional economies will make the case for the value created by the BCM and become successful in applying for funding from various sources. If the BCM, Gashuun Sukhait and Shivee Huren organizations need funding to operate long term, then possible immediate sources beside the governments are chambers of commerce, industry associations (logistics, freight forwarding) and the ADB CAREC.

The CAREC Federation of Carrier and Forwarder Associations (CFCFA), ([www.carecinstitute.org](http://www.carecinstitute.org)), has membership fees and budgets with more formal structure than needed for the BCM, Gashuun Sukhait, Shivee Huren border organizations, and activities are coordinated with ADB. Possibly, ADB CAREC and/or CFCFA can allocate some funds to the BCM, Gashuun Sukhait and Shivee Huren border organizations and provide some oversight. Further inquiries can be made with the PRC and Mongolia members of CFCFA: China International Freight Forwarders Association (CIFA), Captain Lin Zhong, [linzhong@cifa.org.cn](mailto:linzhong@cifa.org.cn), [www.cifa.org.cn](http://www.cifa.org.cn); Inner Mongolia Autonomous Region Logistics Association, Mr. Zhang Haifeng, [wf\\_821@163.com](mailto:wf_821@163.com); Mongolian National Chamber of Commerce and Industry (MNCCI), Mr. Sambuu Demberel, [demberel@mongolchamber.mn](mailto:demberel@mongolchamber.mn); National Road Transport Association of Mongolia.

Lastly, the need for regular meetings and communication of the information is paramount. However, participants have distances to travel and are possible obstacles to the long term success and effectiveness of the joint border institutions. Hence, there are inexpensive web-based meeting solutions available and used by IMTC and developed countries in best practices. For example, WebEx is an on line application where an account can be set up (US\$120/per year with toll free call in numbers) to both view the meeting agenda content on the web and listen/talk over the telephone while the meeting is being conducted and from participants own office location. This will also facilitate the language translations. Also, available are Wi-fi hotspots and Adobe meeting conference calls with video. So, there are solutions available to all obstacles to effective long-term joint cross-border institution development.

There are numerous concepts with supporting cases to underscore the value and importance of cross-border dry ports not as individual operations, but as a single system. This chapter is for highlighting some concepts by description and with brief examples from both developing and developed country best practices. Recently, the Mongolbank reported that the lack of logistics border infrastructure is impacting the national economy for inflation and growth. Logistics facilities create new jobs for both skilled and unskilled workers and over time add value to operations in the supply chain to grow the economy.

### **Supply Chain Strategy**

Supply chain management in the context of well functioning logistics and transportation centers is central to cross-border regional economic development. Supply chains for businesses are closely

connected to customer service and are mounted on: product flows, information flows and financial flows. Products shipped from suppliers need to arrive on time to customers and involve inventory management where rapid inventory turnovers result in more revenue, reduce costs of holding in storage and lower taxes which all are tied to more sales orders. Rapid turnover of inventories rely on excellent information systems between border agencies and businesses across the borders and to final destinations. As such, on time deliveries tracked and traced by good information systems can increase cash flows for business and for government in duty payments. Companies value consistent on time deliveries for product, information and financial flows.

Partnership is necessary between border agencies and businesses to improve trade flows. The WCO endorses all cross-border initiatives to balance security with trade flows by the Framework of Standards to Secure and Facilitate Global Trade (SAFE Framework). Mutual recognition agreements are the central concept here. The aim here is to avoid having the supply chain fragmented by different and time-consuming cross-border agency systems. Each country agrees to accept the accreditation programs of the other country. The EU and Japan agree to the Authorized Economic Operators (AEO) mutual recognition. Similarly, Jordan companies partnered with the Customs department to certify that companies met security audits in their supply chain and as a result companies have faster service from Customs. Companies that are approved are on the Customs, “Golden List.” Australia is implementing a “whole of government” approach wherein all government agencies agree to streamline procedures to make it easier for businesses and the numerous documents from different agencies. A final example in Sweden: supply chains are secured for government and facilitated for traders at the border by an accreditation system using simple messaging system (SMS) called “Stairway.” Before crossing the border, the type of cargo being transported is declared to Customs via SMS, vehicles thereby being automatically identified and their commodities and crossing verified. Companies crossing the borders saved thousands of dollars and hours and also improved the environment with reduced idling of trucks at the border.<sup>14</sup>

### Containerization

Shipping containers are metal boxes in standard measurements of twenty and forty feet for total weight of 25,000-30,000 kilograms per container. Containers offer fast and reliable door to door service and reduce the occurrences of pilferage and damage to goods conveyed. Moreover, the container can be moved easily between modes of transport (ocean vessel, train, truck) for efficient intermodal transshipments. “Eighty percent of general cargo by value and fifty percent by weight move by containers worldwide. Moreover, containers improve the flow of goods from ocean to inland areas. Furthermore, many companies will not place orders unless containers and container handling facilities and equipment are available”.<sup>15</sup>

The current state of transshipments in Zamyn Uud give reason to fully understand the importance of border transport to evolve from overloaded and unsafe trucking to more efficient and safe containerization (chassis and related equipment). The economics of logistics shows that containers can save money from better loading/unloading of cargo and from efficiencies in storage opportunities near and inside warehouses. The concepts of “weigh out” and “cube out” are instructive for our purposes.

In all modes of transport, capacity rules in terms of weight and volume. “If a conveyance carried very dense cargo, such as fish, engine blocks, cement, or liquids, then it is said to “weigh out” when it reaches its weight limit before its volume limit. If a conveyance carries very light cargo, such as fluffy fabrics or fragile goods surrounded by packing peanuts, then it is said to “cube out” when it reaches its

<sup>14</sup> *Handbook of Best Practices at Border Crossings-A Trade and Transport Facilitation Perspective*, Organization for Security and Cooperation in Europe (OSCE) and United Nations Economic Commission for Europe (UNECE), 2012, pgs 74-94.

<sup>15</sup> “China Container Transport Project,” Inner Mongolia, Hebei, Tianjin, Zhejiang, World Bank, 1998.

volume limit before its weight limit.”<sup>16</sup> The opportunity here is that the logistics center offers companies with diverse types of cargo the ability to collaborate and consolidate shipments from one or two or more companies into one container and improve container loading to the fullest capacity. Dense and heavy shipments can combine with light and loose shipments to maximize the weight and volume in one shipment. This reduces unit costs per transport throughout the supply chain, reduces congestion and lowers the environmental impact.

The World Bank was instrumental in the construction of several PRC inland container depots (ICDs) one in Baotou, IMAR and others in Zhejiang and Hebei provinces (Xiaoshan, Hangzhou, Huzhou, Qinhuangdao, Tangshan, Cangzhou and Handan). Some are private and some are state owned with various levels of containerization as of 2005. These ICDs can offer very useful lessons to PRC-Mongolia private sector-government agency partnerships.

### **Project Cargo**

Wind energy equipment is not only large but also delicate and technological improvements are increasing the size of the cargo to inland destinations. Cross-border collaboration with Mongolia can be maximized based on IMAR wind farms in Erlian for knowledge sharing on the specialized weight and height logistics issues. Multiple considerations go into making wind power component project successful. Distances and difficult terrain are common to transporting wind power components. In the U.S.A., carriers taking on wind power logistics projects need to invest capital in specialized trailers and equipment for these oversize shipments. Some third party logistics companies with shippers are choosing rail and road to transport wind components and the demands on preparation and planning are always important. Rail and road are used in the land locked U.S.A. state of Nebraska. Nebraska’s largest electric utility delivers power to about one million people. One wind energy facility generates over one billion kilowatt hours of wind-powered electricity for customers and is the second largest publicly owned wind farm in the U.S.A., operating 36 1.6 megawatt turbines. Specialized skills and equipment for wind farms will be in demand since technologies are evolving for replacement equipment and for new facilities.<sup>17</sup>

### **City Twinning**

By definition, twin cities are border towns adjacent to each other. In the case of Russia along with twin-towns concept, the terms brother (pobratimiy) or related (porodnennyye) cities is used. As far as twinning in the narrow sense is concerned, the twin cities have established an organization of their own. The City Twins Association (CTA) was established in December 2006 as a result of a City Twins Cooperation Network project (2004-06) for fourteen cities. One appropriate example is the case of Imatra, Finland-Svetogorsk, Russia and unique in EU-Russia since this constitutes the only border location where both rail and road border crossings exist.

The goal of twinning is to improve the welfare of the inhabitants of both towns and to facilitate border crossing and community in order to bolster the use of the resources available. The key decision making body of twinning is the steering group with key members of respective administrations of the two towns. Central government ministries from both Finland and Russia have representation in the organizational structure, yet their participation is not active and mostly relies on local input. Russo-Finnish participation also includes small-and medium-sized enterprises. In 1999, they started a Russian-Finnish Key East Industrial Park (KEIP) in the neutral zone in the border area with potential investors gaining tax and Customs exemptions, a visa free regime proposed and a single KEIP management system suggested. Economic conditions have hampered the KEIP. Urban development is taking place in this city-twinning environment. Some are: construction of a cross-border point between Imatra and Svetogorsk, improvement of waste-water treatment systems, energy, development

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<sup>16</sup> *Logistics Clusters, Delivering Value and Driving Growth*, Sheffi Yossi, The MIT Press, Cambridge, 2012, p.11.

<sup>17</sup> “Wind Power: Generating Logistics Opportunities,” *Inbound Logistics*, March, 2012, pages 111-117.

of tourist infrastructure, bolstering competence in municipal governments. Overall, the Imatra-Svetogorsk pair is cooperating, but it has not raised issues pertaining to local identities to any major degree and seen as an asset to both.<sup>18</sup>

### **Border Wizard**

The early stages of the United States' internal border agency cooperation produced a very useful tool for border development. The Border Station Partnership Council had the U.S. GSA, U.S. Department of Transportation (FHWA), US Customs Service and Immigration and Naturalization Service to make long range plans and recommendations to the U.S. legislative body (Congress) for border facilities and cross-border development. As a result of their collaboration and success in finding common ground, they produced the Border Wizard.

Border Wizard is a personal computer based software model that simulates cross-border movement of automobiles, buses, trucks, and pedestrians. It can simulate all Federal inspection activities including Customs, immigration, motor carrier, and security procedures and any land border crossings to determine infrastructure, facilities and operational needs to ensure safe and secure operations. According to the JWC coordinator, the Border Wizard is used as a model for all to benefit based on the model and not guessing.<sup>19</sup>

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<sup>18</sup> "When Two Aspire to Become One: City-Twinning in Northern Europe," Pertti Joenniemi and Alexander Sergunin, *Journal of Borderland Studies*, 26.2-2011, pages 231,238-9.

<sup>19</sup> Border Wizard, [www.fhwa.dot.gov/resourcecenter/teams/planning/plan\\_1BRW.pdf](http://www.fhwa.dot.gov/resourcecenter/teams/planning/plan_1BRW.pdf)