

## FRAMEWORK FINANCING AGREEMENT

### ULAANBAATAR URBAN SERVICES AND GER AREAS DEVELOPMENT INVESTMENT PROGRAM

**Parties** This Framework Financing Agreement (FFA) dated 09 December 2013 is between Mongolia and Asian Development Bank (ADB).

**MFF Investment Program** On behalf of Mongolia, the Government of Mongolia (GOM) is committed to implementing the Ulaanbaatar Urban Services and Ger<sup>1</sup> Areas Development Investment Program (the program) in line with the Urban Services Development Road Map. The program and road map are described in Schedule 1 to this FFA.

The estimated total cost of implementing the program is \$320 million equivalent between 2014 and 2023.

**Multitranche Financing Facility** The multitranche financing facility (MFF, the Facility) is intended to finance projects under the program, provided that such projects comply with the criteria set out in Schedule 4 and that understandings set out in this FFA are complied with.

Each project may include the following:

- (i) expanded roads and urban services within the subcenters, and improved connectivity between them;
- (ii) increased economic and public services in targeted areas;
- (iii) more efficient service providers; and
- (iv) institutions and capacity for urban development, program management, and service delivery are strengthened.

This FFA does not constitute a legal obligation on the part of ADB to commit any financing. At its sole discretion, exercised reasonably, ADB has the right to deny any financing request made by the GOM, cancel the uncommitted portion of the Facility, and withdraw the GOM's right to request any financing tranche under the Facility. Financing tranches may be made available by ADB provided matters continue to be in accordance with the general understandings and expectations on which the Facility is based and which are laid out in this FFA.

This FFA does not constitute a legal obligation on the part of the GOM to request any financing. The government has the right not to request any financing under the Facility. The government also has the right at any time to cancel any uncommitted portion of the Facility.

The GOM and ADB may exercise their respective rights to cancel the Facility or any uncommitted portion thereof, and ADB may exercise its right to refuse a financing request, by giving written notice to such effect to the other parties. The written notice will provide an explanation for the cancellation or refusal

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<sup>1</sup> Traditional tents for housing.

and, in the case of a cancellation, specify the date on which the cancellation takes effect.

### **Financing Plan**

The financing plan for the program is summarized below:

<b>Source</b>	<b>Amount (\$ million)</b>	<b>Share of Total (%)</b>
<b>Investment program</b>		
Asian Development Bank MFF	163.70	51.20
Municipality of Ulaanbaatar	96.00	30.00
Cofinancing <sup>a</sup>	60.30	18.80
<b>Total</b>	<b>320.00</b>	<b>100.00</b>
<b>Project 1</b>		
<b>Asian Development Bank</b>		
ADF Loan	22.50	21.50
OCR Loan	27.50	26.30
UEIF-UFPF <sup>b</sup>	3.70	3.50
<b>Subtotal ADB</b>	<b>53.70</b>	<b>51.30</b>
<b>Municipality of Ulaanbaatar<sup>c</sup></b>	<b>22.44</b>	<b>21.50</b>
<b>Cofinancing<sup>a</sup></b>	<b>28.38</b>	<b>27.25</b>
<b>Total</b>	<b>104.52</b>	<b>100.00</b>

ADB = Asian Development Bank, ADF = Asian Development Fund, MFF = multitranche financing facility, OCR = ordinary capital resources, UEIF = Urban Environmental Infrastructure Fund.

Note: Numbers may not sum precisely because of rounding.

<sup>a</sup> EIB has expressed interest to provide parallel collaborative cofinancing (not administered by ADB) for water supply and sanitation up to \$60.30 million equivalent for the MFF including \$28.38 million equivalent for project 1. If EIB cofinancing does not materialize as planned, the GOM will undertake necessary measures to substitute the shortfall with suitable funding.

<sup>b</sup> Urban Environmental Infrastructure Fund under the Urban Financing Partnership Facility.

<sup>c</sup> This includes local taxes and duties of Project 1 only, which will be borne by GOM in form of exemption.

Source: Asian Development Bank estimates.

### **Financing Terms**

ADB will provide loans and grants to finance tranches under the program, as and when the latter are ready for financing, provided that the government is in compliance with the understandings hereunder, and the tranches are in line with those same understandings. Loans and grants will constitute a tranche.

Each tranche may be financed under terms different from the financing terms of previous or subsequent tranches. The choice of financing terms will depend on the project and ADB's financing policies, all prevailing at the time the tranche is documented in a legal agreement. Tranches may be provided in sequence or simultaneously, and some may overlap in time with each other.

Commitment charges are not payable on the Facility. They are payable only on financing actually committed by ADB as a loan. ADB rules on commitment, which are in effect when a tranche is provided, will apply with respect to such tranche.

### ***Amount***

The maximum financing amount available under the Facility is \$163.7 million. It will be provided in individual tranches from ADB's ordinary capital resources,<sup>2</sup> ADB's Special Funds resources,<sup>3</sup> and cofinancing to be administered by ADB, subject to ADB's then applicable policies concerning the allocation of, and eligibility for, such resources.

### ***Cofinancing***

A parallel collaborative cofinancing (not administered by ADB) up to \$60.30 million equivalent will be provided for the program. The ADB-administered cofinancing is expected at \$13.70 million under the Facility.

### ***Availability Period***

The last date on which any disbursement under any tranche may be made will be 31 December 2022. The last financing tranche is expected to be executed no later than 31 December 2018.

### ***Terms and Conditions***

The GOM will relend the proceeds of each tranche to the Municipality of Ulaanbaatar (MUB) and will cause such proceeds to be applied to the financing of expenditures of the program in accordance with conditions set forth in this FFA and the legal agreements for each tranche.

### **Execution**

The executing agency will be the MUB. It will implement the program in accordance with the principles set forth in Schedule 1 and 3 to this FFA, and as supplemented in the legal agreements for each tranche.

### **Periodic Financing Requests**

The GOM through the Ministry of Economic Development (MED) or its successor may request, and ADB may agree, to provide loans under the Facility to finance the program and its related projects upon the submission of a periodic financing request (PFR). The MED should submit each PFR. The GOM will make available to the MUB the proceeds of the tranche in accordance with the related PFR and the legal agreements for the tranche. ADB will review the PFR and, if found satisfactory, prepare the related legal agreements.

The tranches for which financing is requested under the PFR will be subject to the selection criteria set out in Schedule 4 hereto, satisfactory due diligence, and preparation of relevant safeguards and fiduciary frameworks and other documents. ADB and the MUB will agree on a Facility Administration Manual

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<sup>2</sup> Provisions of the ordinary operations loan regulations applicable to LIBOR-based loans made from ADB's ordinary capital resources, dated 1 July 2001, would apply to each such loan, subject to modifications, if any, that may be included under relevant loan agreement.

<sup>3</sup> Provisions of the special operations loan regulations applicable to loans made by ADB from its special funds resources, dated 1 January 2006, would apply to each such loan, subject to modifications, if any, that may be included under relevant loan agreement.

and a timetable to initiate necessary activities as soon as possible after the date of the FFA, but prior to the effective date of the legal agreements for the first tranche.

**General  
Implementation  
Framework  
Procedures**

The Facility will be implemented in accordance with the implementation framework set out in Schedule 3 hereto.

Tranches to be provided under the Facility will be subject to the following procedures and undertakings:

- (i) The GOM will have notified ADB of a forthcoming PFR in advance of the submission of the PFR.
- (ii) The GOM will have submitted a PFR in the format agreed with ADB.
- (iii) ADB may, in its sole discretion, decline to authorize the negotiation and execution of any legal agreement for a tranche.
- (iv) If ADB confirms acceptance of the PFR, the legal agreements will be negotiated and executed by the parties.

**PFR  
information**

The PFR will substantially be in an agreed format and will contain the following details:

- (i) loan and grant amounts;
- (ii) description of project to be financed;
- (iii) cost estimates and financing plan;
- (iv) implementation arrangements specific to the project;
- (v) confirmation of the continuing validity of and adherence to the understanding in this agreement;
- (vi) confirmation of compliance with the provisions under previous loan agreement and project agreement, as appropriate; and
- (vii) other information as may be required under the Facility Administration Manual or reasonably requested by ADB.

**Safeguards**

Attached as Schedule 5 to this FFA are the Safeguard Frameworks that will be complied with during the implementation of the Facility.

ADB's safeguard policies in effect at the time ADB approves the provision of a financing tranche will be applied with respect to the projects financed under such financing tranche.

**Procurement**

All works and goods to be financed under the Facility will be procured in accordance with ADB's Procurement Guidelines (2013, as amended from time to time).

**Consulting  
Services**

All consulting services to be financed under the Facility will be procured in accordance with ADB's Guidelines on the Use of Consultants (2013, as amended from time to time).

**Advance  
Contracting  
and  
Retroactive  
Financing**

Under each tranche, ADB may, subject to its policies and procedures, allow on request (i) advance contracting of civil works, equipment, and consulting services; and (ii) retroactive financing of eligible expenditures for civil works, equipment, and consulting services up to 20% of the proposed individual loans and grant, incurred prior to loans and grant effectiveness but not earlier than 12 months before the date of signing of the related legal agreement. The

GOM has been informed that any approval of advance contracting and/or retroactive financing will not constitute a commitment by ADB to finance the related project.

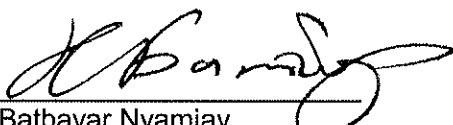
**Disbursements** Disbursements for each tranche will be made in accordance with the conditions of disbursement in the relevant loan agreement and *Loan Disbursement Handbook* (2012, as amended from time to time).

**Monitoring, Evaluation, and Reporting Arrangements** Schedule 2 hereto sets forth the design and monitoring framework for the Facility, against which the implementation effectiveness will be evaluated. Monitoring and reporting will be carried out in accordance with Schedule 3 to this FFA. Performance evaluation of the program and its tranches will be incorporated in semiannual reports to ADB.

**Undertakings** Attached as Schedule 6 are the undertakings provided by the GOM.

MONGOLIA

ASIAN DEVELOPMENT BANK

By:   
Batbayar Nyamjav  
Minister for Economic Development

By:   
Robert Schoellhammer  
Country Director  
ADB Mongolia Resident Mission

## SCHEDULE 1

### MULTITRANCHE FINANCING FACILITY CONSTITUENTS

#### A. Sector Road Map

1. **Background.** Population in the *ger* areas is estimated at 800,000, representing 60% of Ulaanbaatar or 30% of the country population. Living conditions in *ger* areas are difficult. Poor sanitation—households almost exclusively rely on open pit latrines—and poor waste collection have created highly unsanitary living conditions. Air pollution is among the most severe in the world, particularly during winter because of inadequate household heating systems<sup>4</sup> and unpaved roads. Access to water, which is supplied by kiosks operated by the Ulaanbaatar Water Supply and Sewerage Authority (USUG), is limited.<sup>5</sup> In 2011, most of the 40,000 people migrating to Ulaanbaatar settled in *ger* areas. During the next 10 years, the population growth of *ger* areas is estimated to 400,000, both from in-migration and natural growth. This will cause significant threat to the city environment and population health if the situation is not improved.

2. **Subcenters upgrading strategy.** The *ger* areas are predominately residential in nature with pockets of activity nodes, called subcenters, providing commercial and public services. Subcenters are critical for the overall spatial and local development. However, the lack of basic infrastructure is limiting their economic growth and increases their negative impact on the environment.

3. Provision of basic services, improved planning and a network of infrastructure along priority roads would initiate a structural change of the subcenter urban fabric. This will provide residents with basic urban services and socioeconomic facilities, supporting local economic development and enabling residents to access to improved housing options,<sup>6</sup> and public space. Improving infrastructure within the Ger areas subcenters and connectivity with the city core center is critical for inclusiveness and important to ease of movement of people and goods. The changes in land use and higher densification will improve water, sanitation, and heating services delivery.<sup>7</sup>

4. **Road map.** A road map has been formulated based on the priority of the government and the Municipality of Ulaanbaatar (MUB) to redevelop the *ger* areas. The roadmap will support the MUB to establish a network of well-developed subcenters, providing jobs, housing, and economic opportunities with reduced soil and air pollution. The roadmap comprises sequenced investments, municipal reforms, and capacity building (policy, planning, and monitoring). The roadmap has four strategic objectives:

- (i) **Strategic objective 1:** roads and basic urban services (water, sewerage, and heating) are expanded within subcenters, and connectivity between them is improved to initiate a spatial transformation of the urban fabric.

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<sup>4</sup> Most households rely on unimproved individual coal stoves.

<sup>5</sup> Water consumption in *ger* areas is very low at about 10 liters per capita per day (less than half the recommended minimum by the World Health Organization) and costly, residents are paying between twice and 10 times what non-*ger* areas are paying because of the high cost of water delivery through water kiosk or by truck.

<sup>6</sup> In the targeted areas, 60% of the household may consider to exchange their plot of land to full served apartment units within the subcenter.

<sup>7</sup> Under the current situation, individual connection to water, wastewater, and heating services is not cost effective and cannot be afforded by most households. Also, the systematic individual connection to each plot is not recommendable in the context of subcenter development as it will not encourage a mixed land use development, keeping a low density level, which prevents the financial sustainability of urban services delivery.

- (ii) **Strategic objective 2:** economic and public services are increased through investments in social and economic facilities to respond to population needs, increase urban functions and centrality, and encourage job creation.
- (iii) **Strategic objective 3:** service providers become more efficient by implementing operational improvements in water supply, sewerage, and heating services.
- (iv) **Strategic objective 4:** institutions and capacity are strengthened by improving urban planning and subcenter development, community awareness, participation and empowerment, service providers' operations and management, and program implementation capacity.

## B. Strategic Context

5. In February 2013, the Parliament approved the “Adjustments to the Ulaanbaatar City Urban Development Master Plan 2020 and Development Directions 2030”. The new master plan produced two important outcomes: (i) for the first time, ger area development is integrated into the city master plan, and (ii) the value and function of ger area subcenters is acknowledged as a key element of the city’s future growth. The MUB is currently developing the Ger Area Development Program, and in March 2013, established a steering committee led by the chairman of Ulaanbaatar city council. The MUB also established the Ger Area Development Agency (GADA), responsible for redevelopment of the ger areas, under the supervision of the vice mayor who is also in charge of urban development and investment. On 30 May 2013, the city council resolution N.10/38 endorsed the program, subcenter locations under project 1, and coordination of the investment program with the city master plan. The MUB also proposed to establish a special purpose development vehicle, tentatively named subcenter redevelopment authority, to facilitate, supervise, and coordinate the redevelopment process of the subcenters.

6. At the national level, the National Development Strategy and the New Reconstruction Midterm Program (2008–2016) constituted the framework to implement the program. The Ministry of Economic Development initiated the Street Project to improve roads conditions in Ulaanbaatar, including a *ger* area component under preparation. The program objectives are consistent with the strategic goals of the ADB’s Urban Operational Plan,<sup>8</sup> the country partnership strategy,<sup>9</sup> which is in line with ADB’s Strategy 2020.<sup>10</sup>

## C. Policy Framework

7. **Policy dialogue and capacity development.** To supplement the strong policy framework, the policy dialogue and capacity development will focus:

- (i) at the community level, on community participation, awareness and empowerment,<sup>11</sup> including (a) design and implementation of the social and gender action plan; (b) establishing of community development council (CDC) and small- and medium- enterprise (SME) development council (SDC); and (c) build consensus on and support the formulation of land use plan, local development plan, and investment plan of the targeted areas;
- (ii) at the local level, on subcenter upgrading, including (a) technical guidance to establish and operate the subcenter redevelopment authority, (b) institutional arrangements and reforms for the preparation and implementation of local

<sup>8</sup> ADB. 2013. *Urban Operational Plan 2012–2020*. Manila.

<sup>9</sup> ADB. 2012. *Country Partnership Strategy: Mongolia, 2012–2016*. Manila.

<sup>10</sup> ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–2020*. Manila.

<sup>11</sup> The consultative and participatory approach to *ger* area redevelopment, introduced by UN-Habitat involvement during the program preparation was developed in October 2012, in the project 1 subcenters.

- development plans, urban zoning regulation and construction standards, (c) development framework with a transparent mechanism to regulate land redevelopment operation between community and public or private sector; and
- (iii) at the city master plan level, through an on-going ADB capacity development technical assistance<sup>12</sup>, on strengthen the urban planning capacity of Ulaanbaatar Master Planning Agency and Urban Planning, Architecture, and Design Institute.

8. Capacity development for utilities in water and wastewater will target (i) improving management contract between the MUB and USUG, (ii) defining a clearer tariff roadmap linked to cost recovery while addressing affordability issue, and (iii) providing technical support to the Water and Sewerage Regulatory Commission in tariff-setting, service quality monitoring and enforcement, licensing, and public outreach and communications. In the heating sector, the focus will be to ensure financial sustainability and capacity of new and existing heating facilities operators in the selected subcenters. The program will facilitate GOM's priority for the development of state-of-the-art environmentally friendly gas-fired district heating. The program will strengthen provisions in management contracts and coordinate with the Energy Regulatory Commission.

9. **Financing modality.** MFF is the proposed financing modality to promote long-term partnership between ADB, the government, and MUB to facilitate the development of sustainable, inclusive, and livable *ger* areas. The MFF will support the policy framework for the redevelopment of the *ger* areas. It will provide opportunities for constructive dialogues and capacity development on city planning, further policy reforms, and physical and nonphysical investments. The MFF will generate critical mass, predictability, and continuity for basic urban services provision in *ger* areas, and will enable ADB to better respond to the needs of MUB.

10. **Development coordination.** In preparing the program, ADB closely coordinated with the development partners involved in Ulaanbaatar's urban sector, such as the European Investment Bank, GIZ, Japan International Cooperation Agency, UN-HABITAT, United States Millennium Challenge Account and the World Bank. The program will be directly supported by three other ADB-financed projects: (i) a bus rapid transit line from the city center to Selbe subcenter;<sup>13</sup> (ii) a loan to support, amongst other activities, housing and micro-, small-, and medium enterprises financing in the *ger* areas targeted by the program;<sup>14</sup> and (iii) a capacity development technical assistance aiming to strengthen the MUB's capacities in urban planning (footnote 12).

#### D. Investment Program

11. The **impact** of the program is improved living conditions in Ulaanbaatar. The **outcome** is a network of livable, competitive, and inclusive subcenters in Ulaanbaatar's *ger* areas.

12. The program has four **outputs**: (i) roads and urban services are expanded within priority subcenters, and connectivity between them is improved; (ii) economic and public services in targeted areas are increased; (iii) service providers become more efficient; and (iv) institutions and capacity for urban development, program management, and service delivery are

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<sup>12</sup> ADB. 2013. *Technical Assistance to Mongolia for Ulaanbaatar Urban Planning Capacity Improvement*, Manila, financed by JFPR.

<sup>13</sup> ADB.2012. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to Mongolia for the Urban Transport Development Investment Program*. Manila (Loan 0070-MON, approved in September 2012).

<sup>14</sup> Project number 47930 from the private sector operations department to provide a loan to the TenGer Financial Group, a portion of which will be onlend to XacBank. An estimated \$6.0–10.0 million could be made available for the *targeted areas*.



strengthened. The program physical investments will support outputs (i) to (iii) and non-physical investment will support output (iv). The program will be implemented over three tranches.

13. **Project 1.** The first tranche will support the implementation of city master plan to develop Selbe and Bayankhoshuu subcenters: (i) construction of sewerage network extension from the city core of 6.1 kilometers (km) collector main, 2.9 km of sewer pipe extension; (ii) within the subcenters, 15 km priority roads; 18.6 km water supply network, 20 km sewerage network, 21 km district heating network and five heating facilities using most suitable state-of-the-art environmentally friendly technologies; (iii) social and economic facilities, such as (a) two kindergartens, green areas, and small squares; and (b) two business incubators, associated with two vocational training centers; (iv) multi-interventions in USUG to improve operations and service delivery efficiency of water supply and wastewater collection; and (v) institutional strengthening and capacity development to (a) prepare a detailed design and construction supervision, (b) support community participation, awareness, and SME development; (c) improve subcenter redevelopment; (d) strengthen the capacity of the program management office (PMO); and (e) support service providers' reforms.

14. **Project 2 and 3.** The others tranches will (i) expand the coverage of similar investments in Project 1 subcenters, as well as in other subcenters located in the northern and eastern parts of the *ger* areas; and (ii) improve road connection between the targeted subcenters. Khaniin Material and Market Area subcenters are tentatively the two main targeted areas in project 2. Ulyastai and Amgalan subcenters are tentatively the two main targeted areas in project 3. Other subcenters may be considered. Heating solutions developed under tranches 2 and 3 will prioritize gas-fired state-of-the-art environmentally friendly technology, subject to satisfactory due diligence.

## E. Financing Plan

15. The financing plan for the program is summarized below.

Source	Amount(\$ million)	Share of Total (%)
<b>Investment program</b>		
Asian Development Bank MFF	163.70	51.20
Municipality of Ulaanbaatar	96.00	30.00
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<sup>b</sup> Urban Environmental Infrastructure Fund under the Urban Financing Partnership Facility.

<sup>c</sup> This includes local taxes and duties of Project 1 only, which will be borne by GOM in form of exemption.

Source: Asian Development Bank estimates.

## SCHEDULE 2

### DESIGN AND MONITORING FRAMEWORK FOR THE PROGRAM

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
<p><b>Impact</b> Improved living conditions in Ulaanbaatar</p>	<p><b>By 2028:</b> Poverty headcount index reduced by 30% (baseline: 23.5% in 2012)</p> <p>Incidence of water-borne diseases reduced by 30% (baseline: 90,310 in 2012)</p> <p>Air pollution in Ulaanbaatar reduced by 30% (baseline: 1.286 PM<sub>10</sub> concentration in 2012 )</p>	<p>National Statistical Office reports</p> <p>Government public health statistics</p> <p>National Statistical Office reports</p>	<p><b>Assumption</b> Policy environment supports urban development and increased investments in urban infrastructure.</p> <p><b>Risk</b> Urban infrastructure investments constrained by fiscal and political factors</p>
<p><b>Outcome</b> A network of livable, competitive, and inclusive subcenters in Ulaanbaatar's <i>ger</i> areas</p>	<p><b>By 2024:</b> % of population with improved access to water, sanitation and heating increased to 50% (baseline: 0% for water 0% and 0% for sanitation and 0% for heating in 2012) in targeted areas</p> <p>Average density in targeted subcenter increased to 120 persons per ha (average baseline: 50 persons per ha in 2010)</p> <p>Number of business establishments increased by 30% (baseline: 33,140 in 2012) in targeted areas</p> <p>Unit production cost of water reduced by 50% (baseline: MNT5,940 per cubic meter in 2011)</p>	<p>MUB report on urban construction and Districts records</p> <p>MUB report on urban construction and districts records</p> <p>MUB report on urban construction and Districts records</p> <p>USUG operation and financial reports</p>	<p><b>Assumptions</b> Political support and investment in urban infrastructure continue throughout the program.</p> <p>Improved services and urban governance leads to sustained economic growth in the <i>ger</i> areas.</p> <p><b>Risks</b> Insufficient time and resources devoted to community mobilization</p> <p>Lack of private sector participation</p>
<p><b>Outputs</b></p>			
<p>1. Roads and urban services are expanded within the targeted subcenters and connectivity between subcenters is improved.</p>	<p><b>By 2016:</b> 18.6 km of water supply network, 20.0 km of sewer network and 6.0 km of collector mains constructed</p> <p>Five heating facilities, 21 km of heating network pipes and 2.4 km of heating service connections constructed</p> <p>15 km of carriageway and 7.9 ha of landscaping and public space, including universal design features such as sidewalk, lighting, sitting</p> <p><b>By 2023:</b> Water supply, sewer lines, urban roads and heating constructed in 132 ha in six subcenters (baseline: 0 in 2012)</p> <p>Improvements and construction of</p>	<p>PMO progress and completion reports</p>	<p><b>Assumption</b> The MUB complies with ADB's safeguards policies.</p> <p><b>Risk</b> Rising world prices of energy and construction materials significantly increase the program's investment and operation and maintenance costs.</p>

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
	respectively 14.8 km and 9.5 km of connecting roads (baseline: 0 in 2012)		
2. Economic and public services in subcenters are increased.	<p><b>By 2023:</b> At least 5,000 beneficiaries, 50% of whom are women, receive vocational training (baseline: 0 in 2012)</p> <p>Constructed social facilities based on communities needs fully staffed and operational in participating subcenter (baseline: 0 in 2012)</p>	PMO progress and completion reports and District records	<p><b>Assumption</b> Investment in economic and social facilities leads to increased employment.</p> <p><b>Risks</b> Inappropriate vocational training courses provided</p> <p>Lack of demand for commercial facilities built</p>
3. Service providers become more efficient.	<p><b>By 2023:</b> Water supply network pumping system is improved</p> <p>Distribution system is optimized</p> <p>Operation Control Centre is upgraded and expanded</p>	<p>USUG operating and financial reports</p> <p>PMO progress and completion reports</p>	<p><b>Assumptions</b> Service providers are supportive of proposed policy and institutional reforms.</p> <p>Customers continue to pay water and sewerage charges.</p> <p><b>Risk</b> The MUB fails to provide adequate subsidies to augment shortfalls of revenues.</p>
<p>4. Institutional strengthening and capacity building</p> <p>4.1 Subcenter development and community engagement</p> <p>4.2 Operations and management of service providers improved</p>	<p><b>By 2023:</b> Six CDCs and SDCs fully functioning in targeted areas, with at least 40% women participating actively (baseline: CDCs established only in Bayankhoshuu and Selbe in 2012)</p> <p>Subcenters plan are prepared and endorsed by all the stakeholders, through community consultation including at least 50% of women participants</p> <p><b>By 2017:</b> USUG is autonomous in terms of financial and asset management (baseline: USUG not autonomous)</p> <p>Utility tariffs linked to direct cost recovery of O&amp;M, including asset depreciation (baseline: tariffs barely cover O&amp;M)</p>	<p>PMO progress and completion reports</p> <p>CDC reports</p> <p>USUG operating and financial reports</p> <p>USUG business plans</p>	<p><b>Assumptions</b> Urban planning and subcenter development methodologies and tools and supporting legislation are in place at the start of program implementation.</p> <p>Subcenter redevelopment leads to more efficient land use and management.</p> <p><b>Risks</b> Program implementation is slowed down by a lack of community and private sector participation.</p> <p>Women are not effectively mainstreamed into the program.</p> <p><b>Assumptions</b> Policy reforms receive full government support.</p> <p>Appropriate user charges/ tariffs are not implemented by the MUB, and/or not supported by the target consumers.</p>

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
	Revised performance contract between the MUB and service providers in place		<b>Risks</b> Inadequate program resources are allotted to support the policy and institutional reforms.  Lack of incentives to attract private sector participation
4.3 Strengthened program implementation capacity	<b>By 2023:</b> PMO is fully functioning with fully-trained staff, at least 30% of whom are women (baseline: 0 in 2012)  Sex-disaggregated program performance and monitoring system operational (baseline: 0 in 2012)  Project feasibility studies, due diligence and safeguards prepared for participating subcenters (baseline: 0 in 2012)	MUB reports  PMO progress and completion reports	<b>Assumption</b> Consultants and PMO staff work effectively as one team.  <b>Risk</b> Failure to appoint and retain well qualified and experienced consultants
<b>Activities with Milestones for Tranche 1 (after Loan Effectiveness)</b>			<b>Inputs</b>
<b>1. Roads and urban services expanded</b> 1.1 Detailed design of water and/or sewerage improvements completed by April 2014 1.2 Detailed design of heating improvements completed by April 2014 1.3 Detailed design of roads/other infrastructure completed by April 2014 1.4 Urban infrastructure constructed, commissioned, and made operational in phases between April 2014 and 2016 <b>2. Economic and public services in subcenters increased</b> 2.1 Detailed design of kindergarten and business incubators/vocational training centers completed by mid-2014 2.2 Facilities constructed, commissioned, and made operational in phases between mid- 2014 and 2017 <b>3. More efficient service providers</b> 3.1 Support to improvements in operational efficiency 3.2 Construction of upgraded facilities and measurement systems completed <b>4. Institutional strengthening and capacity building</b> 4.1 PMO fully staffed by mid-December 2013 4.2 Hiring of capacity development consultants by January 2014 4.3 Subcenter planning and development guidelines/regulations in place by December 2014 4.4 CDCs and SDCs fully functioning in targeted areas by mid-2014 4.5 Support to financial strengthening and improved regulatory and institutional framework by mid-2015 <b>Tranche 2 is prepared and approved by 2016</b> <b>Tranche 3 is prepared and approved by 2017</b>			<b>Amount</b> (\$ million)  <b>Investment Program</b> ADB MFF 163.70 MUB 96.00 Cofinancing 60.30 <b>Total 320.00</b>  <b>Project 1</b> ADB ADF Loan 22.50 OCR Loan 27.50 UEIF-UFPF <sup>a</sup> 3.70 MUB 22.44 Cofinancing 28.38 <b>Total 104.52</b>

ADB = Asian Development Bank, ADF = Asian Development Fund, CDC = community development council, ha = hectare, km = kilometer, MFF = multitranche financing facility, MUB = Municipality of Ulaanbaatar, OCR = ordinary capital resources, O&M = operation and maintenance, PMO = program management office, SDC = small- and medium-enterprise development council, USUG = Ulaanbaatar Water Supply and Sewerage Authority.

<sup>a</sup> Urban Environmental Infrastructure Fund under the Urban Financing Partnership Facility.

## SCHEDULE 3

### IMPLEMENTATION FRAMEWORK

1. Unless modified or amended in the Loan Agreement under the Facility, the program will be implemented as follows:

#### **A. Management of the Program**

2. The Municipality of Ulaanbaatar (MUB) will be the executing agency of the program. The Urban Development and Investment Department of the MUB will be responsible for coordinating the program implementation. A program management office (PMO) has been established under the Chief of the Mayor Office and will be transferred to the Urban Development and Investment Department. The PMO director will be the Vice Mayor in charge of Urban Development and Investment. The PMO will be operational and fully staffed<sup>15</sup> by mid-December 2013.

3. A program steering committee will be established. It will be chaired by the Mayor of Ulaanbaatar City and will include government representatives from the Ministry of Economic Development, Ministry of Finance, Ministry of Construction and Urban Development, Ministry of Labor, Ministry of Energy, Ministry of Environment and Green Development, Ministry of Road and Transportation, and the Ministry of Education and Science. The steering committee will provide strategic and policy guidance for the investment program.

#### **B. Implementation Period**

4. The investment program will be implemented over a period up to 9 years starting in December 2013. Project 1 will be implemented over a period of 4 years and is expected to be completed by December 2017. Physical infrastructures are expected to be completed by 2016. The loans and grant closing date of project 1 will be 31 June 2018. The MFF will be closed by 31 July 2023.

#### **C. Accounting, Auditing, and Reporting**

5. Within 6 months of the close of each year, the PMO/MUB will submit for consolidation audited annual program accounts, which provide a detailed description of the source of funds and expenditures made, and audited annual consolidated financial statements of the MUB to ADB. The annual audit will include an audit opinion on the imprest account and statement of expenditures procedure operations, and whether the financial loan covenants as stipulated in the ADB's loan, grant and project agreements have been met based on the consolidated financial statements.

6. Progress reports on each project will be prepared by the program management consultants twice a year, reviewed by the PMO, and submitted by the PMO/MUB for consolidation before submitting to ADB. Progress reports will include a description of the physical progress, status of implementation of resettlement plans, status of work, procurement and contractual status, and highlights of any implementation issues. The progress reports will also contain a summary of project accounts, including details of the latest project expenditures and contract amounts. These reports will include an evaluation of progress in implementing the project. Within 6 months of physical completion of each project, the PMO/MUB will furnish for

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<sup>15</sup> The PMO will be staffed by professionals whose qualifications meet the criteria agreed with ADB.

consolidation prior to sending to ADB a project completion report covering details of project implementation, costs, and an evaluation of the project's success in meeting performance targets.

#### **D. Program Performance Monitoring and Evaluation**

7. The program performance and management system indicators and their relevance were discussed with MUB during project preparation. The MUB agreed to a set of indicators for evaluating performance in relation to its impacts, outcomes, and outputs. At the beginning of program implementation, the MUB will establish baseline and target values for the indicators. The indicators will be measured at the program inception, midterm review, completion, and 3 years later; and compared with the baseline (Schedule 2). The main sources of data will include secondary data from government sources and direct collection. The MUB will submit a report to ADB summarizing the key findings of monitoring at the program inception, midterm review, completion, and 3 years later.

#### **E. Program Review**

8. ADB and the MUB will carry out review of the program and the PFRs annually covering all institutional, administrative, technical, economic, environmental, social, resettlement, and other relevant aspects that may have an impact on the performance of the program. The review will examine implementation progress and compliance with assurances in the loan agreement.

## SCHEDULE 4

### SELECTION CRITERIA AND APPROVAL PROCESS FOR PROJECTS

#### A. Selection Criteria

1. The following criteria will apply to the projects that are financed under this program:
  - (i) The projects should be located in Ulaanbaatar City and should involve subcenter or urban corridor redevelopment activities in *ger* areas or activities aiming to improve urban services performance and delivery.
  - (ii) The equipment and materials procured must be in conformity with national standards.
  - (iii) The projects are likely to trigger positive externalities in terms of social impact and economic development; is technically sound and its feasibility assessment meets the engineering, financial, and economic requirements of the GOM and ADB.
  - (iv) The estimated economic internal rate of return of the project will be equal to or higher than 12%, based on the economic analysis to be conducted in accordance with ADB's Guidelines for the Economic Analysis of Projects (1997).
  - (v) The projects will fully comply with the agreed safeguards frameworks set forth in Schedule 5 of this framework financing agreement (FFA).
  - (vi) All necessary government approvals will be obtained.
  - (vii) Sufficient counterpart funding will be allocated to complete the project.
  - (viii) Satisfactory implementation performance of the preceding project financed by the MFF.
  - (ix) Satisfactory implementation performance of the MFF sector roadmap. .

#### B. Approval Procedures

2. Tranche 1 under this Facility has been assessed and is included in the first periodic financing request (PFR) submission. For subsequent financing tranches, the procedures will be as follows:
  - (i) The MUB will review the project and assess it against the established selection criteria. The MUB will be responsible for the technical assessment of the projects.
  - (ii) The MUB will submit information on individual tranches, including safeguards requirements as specified in Schedule 5, to ADB for review and approval.
  - (iii) The MUB, through the Ministry of Economic Development, will formally submit the PFR to ADB for subsequent tranches.

## SCHEDULE 5

### SOCIAL DIMENSIONS AND SAFEGUARD REQUIREMENTS

1. The Government of Mongolia (GOM) will ensure and cause the MUB to ensure that all the requirements prescribed in this Schedule, and the following social and environment safeguard frameworks and plans that have been prepared with respect to the Facility and the first tranche and of which Asian Development Bank (ADB) has been provided full copies, and which are deemed incorporated herein by reference, are complied with during the processing and implementation of the projects under the Facility.

- (i) environmental assessment and review framework, dated July 2013;
- (ii) resettlement framework dated July 2013;
- (iii) initial environment examination including environmental management plan, dated October 2013 for the first tranche; and
- (iv) draft land acquisition and resettlement plan for the first tranche dated August 2013.

2. The frameworks cover the Facility-specific information and requirements in accordance with ADB's safeguard policies: (i) the general anticipated impacts of the components or projects likely to be financed under the Facility on the environment and involuntary resettlement; (ii) the requirements and procedure that will be followed for screening and categorization, impact assessments, development of management plans, grievance redress mechanisms, public consultation and information disclosure (including the 120-day disclosure rule for the environment impact assessment/initial environmental examination/environmental management plan), and monitoring and reporting; and (iii) the institutional arrangements (including budget and capacity requirements) and the client's and ADB's responsibilities and authorities for the preparation, review, and clearance of safeguard documents.

3. Prior to the preparation of each PFR, the applicability and relevance of each safeguard framework for environmental assessment and involuntary resettlement will be reviewed by the MUB and updated to ensure relevance and consistency with applicable country legal frameworks and ADB's safeguard policies, as amended from time to time.

4. In all cases, for each new PFR preparation, the client will review ongoing projects to check on the status of compliance with the social and environment safeguard plans and frameworks, and submit the review reports to ADB, together with other required safeguard documents relevant to the projects included in the tranche being processed as stipulated in the safeguards frameworks. In any case if major noncompliance is discovered in the course of the review of ongoing projects, a corrective action plan will be prepared and submitted to ADB for approval.



## SCHEDULE 6

### UNDERTAKINGS

1. In addition to such undertakings as the Asian Development Bank (ADB) will require in legal agreements for individual tranches under the Facility, other undertakings in this FFA and the Schedules to this FFA, the GOM has given the following undertakings:

- (i) The GOM and MUB shall ensure (a) timely implementation of the program, including executing the implementation arrangements set out in Schedule 3 to this FFA and monitoring and evaluating implementation based on the design and monitoring framework attached to this FFA as Schedule 2; (ii) that all projects financed under this facility are selected and approved in accordance with the criteria and procedures set out in Schedule 4 to this FFA; and (iii) that all projects financed under this Facility are developed, implemented, and maintained in accordance with the safeguard and social requirements set out in Schedule 5 to this FFA.
- (ii) The GOM shall keep ADB informed of policies and programs related to the urban sector and economic development that will materially affect the economic viability of each project financed under the Facility. In the event of any change in the road map, policy framework, program or financing plan, the GOM and ADB shall assess the potential impact on the program and evaluate any change in outcome of the program.
- (iii) The GOM shall cause the MUB to implement the Urban Services Sector Road Map referred to in Schedule 1 to this FFA.
- (iv) The GOM shall cause the MUB to establish and make operational an agency and transparent mechanism, acceptable to ADB, that will ensure community-led *ger* subcenter redevelopment, monitor relevant CDCs' conducting adequate community consultation, catalyze private sector participation, and ensure equitable land redevelopment, land pooling practices and fair compensation to affected persons.
- (v) The GOM shall cause the MUB to ensure sufficient resources for and the construction of 40 apartment units in each targeted subcenter in project 1, dedicated for the resettlement of the affected people and the residents under project 1 and for the residents involved in the land readjustment process by end of 2014. The resettlement units shall be acceptable to the affected people and residents in terms of quality, safety, number of rooms, affordability, habitability, and accessibility.
- (vi) The GOM shall ensure availability of all counterpart funds required for timely and effective implementation of the program and provide additional financing for any cost over-runs in excess of the contingencies of the program and the projects.