



## Periodic Financing Request Report

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Project Number: 45007-009  
MFF Number: 0078  
June 2020

### Mongolia: Ulaanbaatar Urban Services and *Ger* Areas Development Investment Program (Tranche 3)

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Asian Development Bank

## CURRENCY EQUIVALENTS

(as of 22 June 2020)

Currency unit	–	togrog (MNT)
MNT1.00	=	\$0.00036
\$1.00	=	MNT2,814.04

## ABBREVIATIONS

ADB	–	Asian Development Bank
COVID-19	–	coronavirus disease
DEIA	–	detailed environmental impact assessment
EIB	–	European Investment Bank
EIRR	–	economic internal rate of return
FFA	–	framework financing agreement
km	–	kilometer
LARP	–	land acquisition and resettlement plan
MFF	–	multitranches financing facility
MUB	–	Municipality of Ulaanbaatar
OCR	–	ordinary capital resources
PMO	–	program management office
SDR	–	special drawing right

## NOTE

In this report, "\$" refers to United States dollars.

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## CONTENTS

	Page
TRANCHE AT A GLANCE	
I. BACKGROUND	1
II. ASSESSMENT OF MULTITRANCHE FINANCING FACILITY IMPLEMENTATION	2
III. PERIODIC FINANCING REQUEST	4
A. Impact and Outcome	4
B. Outputs	4
C. Summary Cost Estimates and Financing Plan	5
D. Implementation Arrangements	6
E. Tranche Readiness	7
IV. DUE DILIGENCE	7
A. Technical	7
B. Economic and Financial	8
C. Governance	8
D. Poverty, Social, and Gender	9
E. Safeguards	9
F. Summary of Risk Assessment and Risk Management Plan	11
V. ASSURANCES	11
VI. THE PRESIDENT'S DECISION	11
APPENDIXES	
1. Design and Monitoring Framework for Tranche 3	
2. Loan Agreements	
3. Project Agreement	
4. Status of Compliance with Framework Financing Agreement Undertakings and Loan Covenants for Tranches 1 and 2	
5. Updated Facility Administration Manual	
6. Economic Analysis for Tranche 3	
7. Financial Analysis for Tranche 3	
8. Summary Poverty Reduction and Social Strategy for Tranche 3	
9. Updated Environmental Assessment and Review Framework	
10. Initial Environmental Examination and Environmental Management Plan for Tranche 3 (including Environment Management Plan for Contractors)	
11. Updated Land Acquisition and Resettlement Framework	
12. Land Acquisition and Resettlement Plan for Tranche 3	
13. Social Development and Gender Action Plans for Tranche 3	
14. Updated Risk Assessment and Risk Management Plan	
15. Climate Change Assessment for Tranche 3	
16. Client Feasibility Studies and Engineering Designs (available on request)	
SUPPLEMENTARY APPENDIXES	
17. Implementation of Remedial Measures to Address Involuntary Resettlement-Related Complaints in Tranche 1	
18. Detailed Economic Analysis	

## TRANCHE AT A GLANCE

1. Basic Data		Project Number: 45007-009	
Project Name	Ulaanbaatar Urban Services and Ger Areas Development Investment Program - Tranche 3	Department/Division	EARD/EASS
Country	Mongolia	Executing Agency	Ulaanbaatar Municipal Government
Borrower	Mongolia		
Country Economic Indicators	<a href="https://www.adb.org/Documents/LinkedDocs/?id=45007-009-CEI">https://www.adb.org/Documents/LinkedDocs/?id=45007-009-CEI</a>		
Portfolio at a Glance	<a href="https://www.adb.org/Documents/LinkedDocs/?id=45007-009-PortAtaGlance">https://www.adb.org/Documents/LinkedDocs/?id=45007-009-PortAtaGlance</a>		
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Water and other urban infrastructure and services	Urban policy, institutional and capacity development		3.90
	Urban slum development		23.85
Education	Education sector development		2.88
Transport	Urban roads and traffic management		13.04
		Total	43.65
3. Operational Priorities		Climate Change Information <sup>1</sup>	
✓ Addressing remaining poverty and reducing inequalities		GHG reductions (tons per annum)	131,931
✓ Accelerating progress in gender equality		Climate Change impact on the Project	Medium
✓ Tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability			
✓ Making cities more livable		ADB Financing	
✓ Strengthening governance and institutional capacity		Adaptation (\$ million)	2.84
		Mitigation (\$ million)	0.87
		Cofinancing	
		Adaptation (\$ million)	0.00
		Mitigation (\$ million)	0.00
Sustainable Development Goals		Gender Equity and Mainstreaming	
SDG 1.4, 1.5		Effective gender mainstreaming (EGM)	✓
SDG 3.3			
SDG 4.2, 4.a		Poverty Targeting	
SDG 5.2, 5.5		General Intervention on Poverty	✓
SDG 6.1, 6.2, 6.3			
SDG 9.1, 9.3			
SDG 11.6			
SDG 13.a			
SDG 16.2			
4. Risk Categorization: Complex			
5. Safeguard Categorization Environment: B Involuntary Resettlement: A Indigenous Peoples: C			
6. Financing			
Modality and Sources		Amount (\$ million)	
ADB		43.65	
Sovereign MFF-Tranche (Concessional Loan): Ordinary capital resources		18.80	
Sovereign MFF-Tranche (Regular Loan): Ordinary capital resources		25.05	
Cofinancing		18.65	
European Investment Bank - MFF-Tranche (Loan) (Not ADB Administered)		18.65	
Counterpart		51.90	
Government		51.90	
Total		114.20	
Currency of ADB Financing: US Dollar			

<sup>1</sup> The project reduces greenhouse gas emissions. However, it does not fall under the eligibility criteria for climate mitigation finance as defined by the joint multilateral development bank methodology on tracking climate finance, which notes that not all activities that reduce greenhouse gases in the short term are eligible to be counted towards climate mitigation finance. Accordingly, greenfield fossil fuel projects are excluded, and climate mitigation finance is considered zero.



## I. BACKGROUND

1. Ulaanbaatar city is home to more than 1.44 million people.<sup>1</sup> The central city core with comprehensive utility services is surrounded by vast, substandard, and unserved *ger* areas of about 100 square kilometers.<sup>2</sup> *Ger* areas accommodate about 60% of the city's population (about 840,000 inhabitants)<sup>3</sup> and have spread and expanded through successive waves of migration.<sup>4</sup> These settlements of low- and medium-income households are characterized by loosely aligned plots, creating irregular unpaved pathways.<sup>5</sup> The majority of households living here have land tenure. Lack of basic urban infrastructure and services in *ger* areas has caused severe pollution that threatens city residents' health. Obsolete household coal stoves for heating, and traffic congestion caused by unplanned road networks have helped generate some of the highest levels of air pollution in the world.<sup>6</sup> Households' exclusive reliance on open pit latrines and a poor solid waste collection system has led to poor sanitation, along with limited access to water supplied by water kiosks. There is a lack of basic social and public facilities, such as green spaces, parks, sports centers, kindergartens, and primary health centers. The upgrading of *ger* areas is constrained by inadequate urban infrastructure, lack of urban planning, poor urban services, and limited public spaces and facilities.

2. **Multitranchise financing facility.** On 12 December 2013, the Asian Development Bank (ADB) approved the Ulaanbaatar Urban Services and *Ger* Areas Development Investment Program<sup>7</sup> using a multitranchise financing facility (MFF) modality, comprising three tranches, and with a revised implementation period of 10 years or until 11 December 2023.<sup>8</sup> The total program cost is \$320.00 million, of which \$163.70 million will be financed by ADB; \$96.00 million by the Municipality of Ulaanbaatar (MUB); and up to €50.00 million (\$60.30 million equivalent at the time of approval) parallel cofinancing by the European Investment Bank (EIB). This program is the result of a successful policy dialogue between ADB and the MUB that catalyzed the (i) integration of *ger* areas in the Ulaanbaatar city master plan for the first time in December 2013, and (ii) adoption of a priority service and economic hubs (subcenters) development strategy in *ger* areas as a catalyst for more polycentric and inclusive city development. Under this program, a road map has been developed to establish a network of well-developed city subcenters to provide jobs, housing, and economic opportunities with reduced soil and air pollution. The program has introduced a paradigm shift and replicable mechanism to systematically extend modern infrastructure and key social facilities to *ger* areas.<sup>9</sup> The program's impact is improved living conditions in Ulaanbaatar; its outcome is a network of livable, competitive, and inclusive subcenters in Ulaanbaatar's *ger* areas. The program has four outputs: (i) roads and urban services are expanded within the targeted subcenters and connectivity between subcenters is improved; (ii) economic and public services in subcenters are improved; (iii) service providers become more efficient; and (iv) institutions and capacity for urban development, program

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<sup>1</sup> Ulaanbaatar City Statistics Office. <http://ubstat.mn/StatTable=11/> (Mongolian version, accessed 16 January 2020).

<sup>2</sup> *Ger* is the Mongolian word for yurt, and a *ger* area refers to a peri-urban area not connected to basic services.

<sup>3</sup> Almost 54% of the population of Ulaanbaatar's *ger* areas lives in solid houses and 46% lives in traditional *gers*. Ulaanbaatar City Statistics Office. <http://ubstat.mn/> (Mongolian version, accessed 18 January 2020).

<sup>4</sup> Since 2010, the estimated average population growth in *ger* areas was about 25,000 inhabitants per year. This represents half of the city's 3.8% annual growth rate.

<sup>5</sup> The average household monthly income in *ger* areas is \$380.

<sup>6</sup> World Health Organization. 2019. [Air Pollution in Mongolia](#). *Bulletin of the World Health Organization*. 97(2). pp. 79–80.

<sup>7</sup> ADB. [Mongolia: Ulaanbaatar Urban Services and Ger Areas Development Investment Program](#).

<sup>8</sup> On 16 April 2020, the President approved the extension of the MFF availability period from 9 years to 10 years (or from 31 December 2022 to 11 December 2023) to ensure the timely implementation of tranche 3.

<sup>9</sup> For example, this mechanism will be replicated in ADB's forthcoming *Aimag* and *Soum* Centers Regional Development Investment Program.

management, and service delivery are strengthened. The framework financing agreement (FFA) was signed on 9 December 2013 and ratified by the Parliament of Mongolia on 23 May 2014.

3. **Tranches.** Tranche 1 was approved on 17 December 2013, with a revised closing date of 30 June 2021. It supports the city master plan in developing the Selbe and Bayankhoshuu subcenters.<sup>10</sup> ADB financing for tranche 1 consists of (i) a \$27.50 million regular ordinary capital resources (OCR) loan, (ii) a SDR14.54 million (equivalent to \$22.50 million at the time of approval) concessional OCR loan, and (iii) a \$3.70 million grant from the Urban Environmental Infrastructure Fund under the Urban Financing Partnership Facility.<sup>11</sup> EIB cofinancing for tranche 1 is \$22.01 million, while MUB financing is \$33.15 million. Tranche 2 was approved on 31 March 2017, with a closing date of 28 February 2022. It aims to extend the urban infrastructure and social facilities upgrading and spatial restructuring to the Dambadarjaa and Denjiin subcenters and to provide additional investments in the Bayankhoshuu and Selbe subcenters.<sup>12</sup> ADB financing for tranche 2 consists of (i) a \$37.11 million regular OCR loan, and (ii) a SDR21.59 million (equivalent to \$29.24 million at the time of approval) concessional OCR loan. EIB cofinancing for tranche 2 is \$19.64 million, while MUB financing is \$35.15 million.

4. ADB received a periodic financing request for the third tranche under the MFF from the Government of Mongolia on 15 April 2020. The third tranche is included in ADB's country operations business plan for Mongolia, 2020–2021.<sup>13</sup>

## II. ASSESSMENT OF MULTITRANCHE FINANCING FACILITY IMPLEMENTATION

5. **Progress on road map.** The progress on road map is satisfactory. Tranches 1 and 2 have supported the development of four subcenters in *ger* areas, by expanding roads and basic urban services and increasing economic and public services. Water operation efficiency of the Ulaanbaatar Water Supply and Sewerage Authority has improved with reduced power consumption at the pumping stations and reduced energy consumption per cubic meter of water. The first batch of community development councils and business councils have been established and functioning with significant representation of women. With improved city planning capacity, MUB has formulated the local development plans for tranche 1 subcenters, which will be followed by tranches 2 and 3 and other subcenter development. The program has already acted as a catalyst for other initiatives by the MUB, ADB, and other development partners, creating strong partnerships and synergies to achieve the outcome and impact of the overall road map.<sup>14</sup>

<sup>10</sup> ADB. [Mongolia: Ulaanbaatar Urban Services and Ger Areas Development Investment Program \(Tranche 1\)](#).

<sup>11</sup> Administered by ADB. The financing partner is the Government of Sweden. The grant supported output 3 to improve water and wastewater services operation and energy efficiency of the Ulaanbaatar Water Supply and Sewerage Authority.

<sup>12</sup> ADB. [Mongolia: Ulaanbaatar Urban Services and Ger Areas Development Investment Program \(Tranche 2\)](#).

<sup>13</sup> ADB. 2018. [Country Operations Business Plan: Mongolia, 2020–2021](#). Manila.

<sup>14</sup> For example: (i) ADB. [Mongolia: Ulaanbaatar Air Quality Improvement Program](#), a policy-based loan of \$130 million that supports a switch to alternative fuels for heating in *ger* areas to reduce air pollution; (ii) the joint Build4Skills initiative by ADB, the German Federal Ministry of Economic Cooperation and Development, and German development cooperation through Deutsche Gesellschaft für Internationale Zusammenarbeit, which is being piloted using tranche 1 construction activities to improve technical skills of the local communities; (iii) Pomagalski S.A., a French company, is at the final negotiation stage with the MUB and the Treasury of the Government of France to build a ropeway public transportation system linking tranche 1 subcenters to Ulaanbaatar city center; (iv) the Asia Foundation's Women Entrepreneurship Program, which will partner with the business incubator operator to build capacity of women entrepreneurs; (v) the Second Compact Grant, for \$350 million, signed by the Millennium Challenge Corporation and the Government of Mongolia to increase the potable water supply capacity by 80%; and (vi) construction of a new central wastewater treatment plant with a capacity of 250,000 cubic meters, partly financed through a \$300 million loan from the Government of the People's Republic of China.

6. **Improvements in policy framework.** Significant achievements in the policy framework are as follows: (i) there has been an increase in water and wastewater tariffs, (ii) an affordable housing strategy and the ADB-financed Ulaanbaatar Green Affordable Housing and Resilient Urban Renewal Sector Project amounting to \$80.0 million were approved,<sup>15</sup> and (iii) the subcenter redevelopment strategy remains a high priority for the MUB.<sup>16</sup>

7. **Tranche 1 implementation performance.** As of 31 March 2020, the overall implementation progress was 75.1% against 83.4% of the elapsed implementation period. Of the overall contract amount, \$45.3 million (84.3%) had been awarded, while total disbursement was at \$31.0 million (57.7%). On 14 December 2019, ADB approved the extension of the loan closing date for tranche 1 until 30 June 2021 to ensure the satisfactory completion of all construction works and other remaining activities. The \$3.7 million grant from the Urban Environmental Infrastructure Fund was financially closed on 21 November 2019. For outputs 1 and 2, 30 of the 31 contracts have been awarded, of which 13 have been physically completed. The remaining packages will be physically completed by the first quarter of 2021. Output 3 activities have been completed which improved the operations efficiency of the Ulaanbaatar Water Supply and Sewerage Authority. The institutional and capacity strengthening activities under output 4 for urban development, program management, and service delivery have been substantially completed. There is no change in tranche 1 outputs and its performance is rated *on track*.

8. **Tranche 2 implementation performance.** As of 31 March 2020, the overall implementation progress was 10.8% against 61.1% of the elapsed implementation period. Of the overall contract amount, \$14.8 million (22.3%) had been awarded, while total disbursement was \$10.1 million (15.2%). Detailed design for outputs 1 and 2 will be completed and approved by State Expertise in August 2020.<sup>17</sup> For output 3, community participation and small and medium-sized enterprises development were supported through consultation meetings, socioeconomic surveys, and focus group discussions. The project implementation consulting team is working on the mobilization of primary groups and community development councils. Local development plans are being prepared, and redevelopment process and community engagement will follow the same steps and principles as those used in tranche 1. There is no change in tranche 2 outputs and its performance is rated *on track*.

9. **Compliance with undertakings and loan covenants.** Compliance by the Government of Mongolia with the loan covenants and FFA undertakings has been satisfactory overall (Appendix 4). Compliance with FFA Schedule 6, Undertaking 4 is ongoing but should be expedited.<sup>18</sup> Current subcenter development initiatives and community activities should be consolidated and developed into an operational framework and submitted to ADB for approval by 31 December 2020. Under tranche 1, two eligible complaints were filed with ADB's Office of the Special Project Facilitator. The complaints were from affected persons and nongovernment

<sup>15</sup> ADB. [Mongolia: Ulaanbaatar Green Affordable Housing and Resilient Urban Renewal Sector Project](#).

<sup>16</sup> The subcenters development is the main strategy and the principal investment program of the MUB to modernize *ger* areas. It is one of the key components of the “*Adjustments to the Ulaanbaatar City Urban Development Master Plan 2020 and Development Directions 2030*” approved by the Mongolian Parliament.

<sup>17</sup> Tranche 2 detailed design completion for output 1 has been delayed because of lengthy discussion around the district heating solutions to be implemented that should take the form of transmission line from the central system or decentralized heating facilities. A working group was formed in November 2019, and the final decision was made in April 2020.

<sup>18</sup> FFA Schedule 6, Undertaking 4: The Government of Mongolia 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 community development councils' conducting adequate community consultation; catalyze private sector participation; and ensure equitable land redevelopment, land pooling practices, and fair compensation to affected persons.

organizations and related to the implementation of the resettlement provisions. The corrective measures to resolve the complaints were agreed through a joint memorandum of understanding signed among various parties on 2 July 2018, and the implementation progress is summarized in Supplementary Appendix 17. The project team is working closely with the MUB in implementing these corrective measures to achieve the Office of the Special Project Facilitator's formal closure of the complaints, which is expected by the second quarter of 2020.

10. **Lessons.** Lessons from previous tranches have been incorporated in the design of tranche 3, including enhancing community participation and minimizing project delays because of the slow land acquisition and resettlement process and detailed design preparation.

11. **Continuity of longer-term engagement.** Approved under the previous government and implemented under the current one, the program has ownership from all political parties, and continues to be highly relevant for the government, as it is a major instrument to reduce air pollution and implement the long-term redevelopment of *ger* areas. The program has also built strong synergies with other development partners, the MUB, the private sector, and local communities, and it has gained visibility in the local media, making it resilient to political changes and interference.

12. **Response to coronavirus disease.** The program will significantly contribute to Mongolia's response to coronavirus disease (COVID-19) by improving access to clean water, sanitation, and hygiene in *ger* areas and reducing the citywide air pollution caused by household stoves and traffic congestion. In addition, tranche 3 has sought effective coordination with ongoing health sector projects to contribute to post-pandemic recovery. This includes construction of a primary health care center to further improve the essential health service delivery, including for COVID-19, in *ger* areas.

13. All outputs under the MFF-financed physical and nonphysical investments will be delivered by the end of the 10-year MFF availability period to achieve timely completion (footnote 8).

### III. PERIODIC FINANCING REQUEST

#### A. Impact and Outcome

14. Tranche 3 is aligned with the following impact: improved living conditions in Ulaanbaatar.<sup>19</sup> Tranche 3 will have the following outcome: a network of livable, competitive, and inclusive subcenters in Ulaanbaatar's *ger* areas.<sup>20</sup>

#### B. Outputs

15. Tranche 3 of the MFF will have three outputs to support the redevelopment of two additional subcenters in the eastern and western *ger* areas (Sharkhad and Tolgoit).<sup>21</sup>

<sup>19</sup> State Great Khural (Parliament) of Mongolia. 2013. *Adjustments to the Ulaanbaatar City Urban Development Master Plan 2020 and Development Directions 2030*. Ulaanbaatar.

<sup>20</sup> The design and monitoring framework is in Appendix 1.

<sup>21</sup> Tranche 3 targeted areas have been selected because they are compliant with the FFA selection criteria: (i) central characteristics (i.e., agglomeration and densification processes) are already ongoing; (ii) large influence areas; (iii) socioeconomic impacts; (iv) high pollution levels; (v) economic potential; (vi) alignment with the city master plan; and (vii) potential synergies with tranches 1 and 2 investments. All components of tranche 3 are compliant with the selection criteria indicated in Schedule 4 of the FFA. In 2019, the populations of Sharkhad and Tolgoit subcenter project areas were 9,046 and 6,979, respectively.

16. **Output 1: Roads and urban services expanded within the targeted subcenters and connectivity between subcenters improved.** This output will involve the construction of (i) 16.62 kilometers (km) of priority roads with 10 closed-circuit television cameras installed; (ii) 10.88 km of flood protection channels and two sediment retention ponds; (iii) 40.00 km of overhead electricity cables and 9.60 km of fiber-optic cables with auxiliary facilities for a telecommunication network; (iv) 17.26 km of water supply, 6.80 km of sewerage pipeline, and 8.02 km of heating network pipes with seven substations and secondary connections; and (v) one reservoir in Sharkhad and one pumping station each for water supply in Sharkhad and Tolgoit.

17. **Output 2: Economic and public services in targeted subcenters improved.** This output will involve the construction of (i) two kindergartens in Tolgoit and Sharkhad, (ii) one primary health care center in Tolgoit, (iii) two community development and service centers in Tolgoit and Sharkhad, (iv) two training centers in Tolgoit and Sharkhad, (v) one sports complex in Sharkhad, (vi) five green public spaces in Tolgoit and Sharkhad, and (vii) 50 social housing units in Sharkhad.

18. **Output 3: Institutional capacity for program management and urban development strengthened.** This output will involve the engagement of consulting services for a people-centered subcenter redevelopment mechanism and platform to ensure a green, livable, and efficient subcenter redevelopment process involving people and public and private stakeholders. This output aims to finalize and institutionalize the activities that have been implemented under tranches 1 and 2, including community participation, awareness, and empowerment; and small and medium-sized enterprises development. External monitoring consultants will also be engaged to ensure compliance with ADB safeguard requirements.

### C. Summary Cost Estimates and Financing Plan

19. Tranche 3 is estimated to cost \$114.20 million (Table 1). Detailed cost estimates by financier and by outputs are included in the updated facility administration manual (Appendix 5).

**Table 1: Summary Cost Estimates**  
(\$ million)

Item	Amount <sup>a</sup>
<b>A. Base Cost<sup>b</sup></b>	
1. Roads and urban services expanded	
1.1 Roads and associated infrastructure	50.92
1.2 Water supply and sewerage, including flood protection	15.34
1.3 Heating services	10.80
<b>Subtotal (A1)</b>	<b>77.06</b>
2. Economic and public services in targeted subcenters improved	14.05
3. Institutional capacity for program management and urban development strengthened	3.29
<b>Subtotal (A)</b>	<b>94.40</b>
<b>B. Contingencies<sup>c</sup></b>	<b>16.62</b>
<b>C. Financial Charges During Implementation<sup>d</sup></b>	<b>3.18</b>
<b>Total (A+B+C)</b>	<b>114.20</b>

<sup>a</sup> Includes value-added taxes and custom duties estimated at \$8.22 million for tranche 3. Such amount does not represent an excessive share of the project cost. The government will finance these taxes and duties through exemption.

<sup>b</sup> In 2019 prices as of 25 November 2019.

<sup>c</sup> Physical contingencies computed at 8% for roads and associated infrastructure, including heating; 5.0% for civil works and consulting services; and 10.3% for water supply and sewerage, including flood protection. Price contingencies computed at average of 1.6% on foreign exchange costs and 6.8% on local currency costs; includes

provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

<sup>d</sup> Includes interest and commitment charges. Financial charges during implementation of the Asian Development Bank (ADB) loans are computed at (i) 2.0% per annum for the concessional ordinary capital resources (OCR) loan; and (ii) 5-year United States dollar fixed swap rate plus an effective contractual spread of 0.5% and a maturity premium of 0.1% for the regular OCR loan. Commitment charges for the regular OCR loan are 0.15% per year to be charged on the undisbursed loan amount. Financial charges during implementation for the European Investment Bank loan were calculated based on the same assumptions as ADB's regular OCR loan.

Source: ADB estimates.

20. Table 2 shows the financing plan of tranche 3. The government has requested a regular loan of \$25.05 million and a concessional loan of \$18.60 million from ADB's OCR to help finance the project. The regular loan will have a 26-year term, including a grace period of 6 years, an annual interest rate determined in accordance with ADB's London interbank offered rate-based lending facility; a commitment charge of 0.15% per year (the interest and other charges during construction to be capitalized in the loan); and such other terms and conditions set forth in the draft loan and project agreements. Based on the custom-tailored repayment method, the average maturity is 16 years, and the maturity premium payable to ADB is 0.10% per year. The concessional loan will have a 25-year term, including a grace period of 5 years, an interest rate of 2.0% per year during the grace period and thereafter, and such other terms and conditions set forth in the draft loan and project agreements. The government will relend the proceeds of the loans to the MUB upon terms and conditions satisfactory to ADB.

21. **Cofinancing and counterpart funds.** The EIB will provide parallel cofinancing totaling \$18.65 million for water supply and sewerage subprojects, including contingencies and financial charges during implementation. The EIB loan will have a 25-year term, including a grace period of 5 years and an interest rate in accordance with its London interbank offered rate-based lending facility. The MUB will provide counterpart funding of \$51.90 million for land acquisition and resettlement support, civil works and equipment, taxes and duties, and contingencies.

**Table 2: Summary Financing Plan**

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank		
Ordinary capital resources (regular loan)	25.05	21.93
Ordinary capital resources (concessional loan)	18.60	16.29
European Investment Bank (loan) <sup>a</sup>	18.65	16.33
Municipality of Ulaanbaatar <sup>b</sup>	51.90	45.45
<b>Total</b>	<b>114.20</b>	<b>100.00</b>

<sup>a</sup> The European Investment Bank is providing parallel collaborative cofinancing (not administered by the Asian Development Bank) for water supply and sanitation of up to \$60.30 million equivalent for the multitranche financing facility investment program. If this cofinancing does not materialize as planned, the Government of Mongolia will undertake necessary measures to substitute for the shortfall with suitable funding.

<sup>b</sup> Includes value-added taxes and custom duties, which will be financed by the government through exemption.

Source: Asian Development Bank estimates.

22. Climate mitigation is estimated to cost \$1.12 million and climate adaptation is estimated to cost \$12.17 million. ADB will finance \$0.87 million (77.7%) of mitigation costs and \$2.84 million (23.3%) of adaptation costs. Details are in the climate change assessment (Appendix 15).

## **D. Implementation Arrangements**

23. The implementation arrangements are summarized in Table 3 and described in detail in the updated facility administration manual (Appendix 5).

**Table 3: Implementation Arrangements for Tranche 3**

Aspects	Arrangements		
Implementation period	July 2020–December 2023		
Estimated completion date	11 June 2023		
Estimated loan closing date	11 December 2023		
Management			
(i) Oversight body	Steering committee (Mayor of Ulaanbaatar [chair]; and representatives from the Ministry of Construction and Urban Development; Ministry of Environment and Tourism; Ministry of Finance; Ministry of Labor and Social Protection; Ministry of Education, Culture, Science and Sports; and relevant departments of the Municipality of Ulaanbaatar [members])		
(ii) Executing agency	Municipality of Ulaanbaatar		
(iii) Key implementing agency	Project Management and Regulation Division under the Municipality of Ulaanbaatar		
(iv) Implementation unit	The Ulaanbaatar program management office was established under the deputy governor in charge of infrastructure and <i>ger</i> areas development; it has 27 staff		
Procurement	International competitive bidding	5 contracts	\$44.36 million
	National competitive bidding	10 contracts	\$20.91 million
Consulting services	Quality- and cost-based selection	International: 24 person-months National: 57 person-months	\$1.80 million
	Consultants' qualifications selection	National: 68 person-months	\$0.36 million
Advance contracting	Advance contracting is requested for the participatory urban planning consulting services and civil works contracts for socioeconomic facilities.		
Disbursement	The loan proceeds will be disbursed following the Asian Development Bank's <i>Loan Disbursement Handbook</i> (2017, as amended from time to time) and detailed arrangements agreed between the government and the Asian Development Bank.		

Source: Asian Development Bank.

## **E. Tranche Readiness**

24. The draft feasibility study report for tranche 3 has been submitted and accepted by ADB, and all required due diligence has been conducted. The updated land acquisition and resettlement framework and environmental assessment and review framework, including the initial environmental examination and resettlement plan, were disclosed on the ADB website on 8 April 2020. The consulting firms engaged under tranche 2 are preparing the detailed design and will update the resettlement plan for tranche 3.

## **IV. DUE DILIGENCE**

### **A. Technical**

25. Technical design and specifications are based on the detailed design of tranches 1 and 2. They are in line with local plans produced by the MUB for the targeted locations and include comparative analyses, needs assessments, and design methods that promote best solutions for *ger* areas and for better structured and efficient urban development. Cold climate factor has been incorporated based on Mongolian and international standards. Heat production is based on the most environment-friendly solution currently in use. Green building features, such as solar panels and glass greenhouses, have been incorporated in some of the project facilities. Primary health

care center design follows the relevant Mongolian standard (MNS 5292:2017). Climate change assessment was conducted (Appendix 15) and includes responses to climate risk management measures, which will be incorporated in the detailed design.

## **B. Economic and Financial**

26. Overall, the project is economically viable, with a total economic internal rate of return (EIRR) of 15.3%, higher than the 12.0% threshold rate used for consistency with the economic analyses for tranches 1 and 2. Investments in each project area are also found to be viable, with EIRRs of 16.8% in Sharkhad and 13.8% in Tolgoit. The individual subprojects were also found to be economically viable, except for the sewerage improvement subproject whose EIRR is below 12.0% in both Sharkhad and Tolgoit. However, benefits for the sewerage and heating improvements subprojects are believed to be understated because the analysis does not incorporate communities' willingness to pay for reliable sewerage and heating services. Sensitivity analyses show that subprojects remain largely viable under adverse scenarios, but are most sensitive to changes or delays in benefits as well as the worst-case scenario, wherein costs are increased and benefits decreased.

27. The financial analysis was conducted to assess the financial viability and sustainability of the project in accordance with ADB guidelines.<sup>22</sup> The financial evaluation of the revenue-generating heating subprojects results in a financial internal rate of return of 8.95%, exceeding the weighted average cost of capital of 1.94%. The sensitivity analysis indicates that the combined heating projects remain financially viable under all scenarios. When separately assessed, the Tolgoit heating subproject is most sensitive because of its higher investment cost. The financial sustainability analysis shows that the fiscal burden of the non-revenue-generating subprojects in relation to the government budget is negligible. However, the MUB is implementing several foreign-funded projects, including various ADB-funded projects and programs. Thus, to ensure the required counterpart financing is properly allocated and provided, an assurance is included in the loan and project agreements.

28. The affordability analysis indicates that the proposed combined tariffs of Ulaanbaatar city for water supply and sewerage services is \$0.48 per cubic meter, similar to the willingness to pay in the Sharkhad and Tolgoit project areas. In addition, the households in these project areas are willing to pay \$9.85 and \$9.50 per month for improved heating services. The unified tariffs for clean water, wastewater, and heating services will not exceed 17.0% of the monthly income of the lowest-income households during winter. Except during winter, the household water and sewerage cost is 6.2% of the monthly income of the lowest-income households in the Sharkhad and Tolgoit project areas.

## **C. Governance**

29. The project procurement risk assessment concludes that the MUB and program management office (PMO), through the implementation of tranches 1 and 2, have acquired experience in procurement and in managing ADB projects, in accordance with ADB policies and procedures as well as national laws and regulations. Through tranche 3 implementation, the MUB and PMO will continue to receive adequate practical knowledge and training support for procurement. The financial management risk is *moderate*. The MUB, which will administer the

<sup>22</sup> ADB. 2015. [Financial Management Technical Guidance Note: Financial Management Assessment](#). Manila; ADB. 2005. [Financial Management and Analysis of Projects](#). Manila; and ADB. 2009. [Financial Due Diligence: A Methodology Note](#). Manila.

advance accounts, has sufficient experience in managing projects financed by multilateral agencies, including ADB. Although the implementing agency and PMO have financial management capacity and project management experience, a component to strengthen their capacity to implement tranche 3 in line with ADB policies and procedures is still required. The financial management assessment recommends mitigation and capacity development measures to be executed by the MUB and PMO during project preparation and implementation, including procurement of accounting software, updating of the financial management manual, and training of PMO financial management staff.

30. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government and the MUB. The specific policy requirements and supplementary measures are described in the updated facility administration manual (Appendix 5).

#### **D. Poverty, Social, and Gender**

31. Tranche 3 will directly benefit 15,799 residents in the Sharkhad and Tolgoit subcenters. Social development and gender action plans have been developed for tranche 3 (Appendix 13) to mitigate the social risks related to the project and to ensure the positive benefits of project components for vulnerable groups. A community action plan and stakeholders' communication strategy have also been prepared to strengthen community participation in the urban redevelopment process and communication with stakeholders. Social measures will be monitored through the project performance management system, project progress reports, and ADB review missions. Social and gender indicators will be included in the project performance management system, and consultant inputs will be provided for implementation and monitoring.

32. **Gender.** Tranche 3 is categorized *effective gender mainstreaming*. The project will have significant benefits for women and will allow them to participate in a behavioral change and awareness-raising campaign, capacity building, and decision-making. Women strongly support the project across all subprojects, and they perceive that the project will improve their quality of life and create education, employment, and income opportunities for them and their family members. The gender action plan prepared for tranche 3 (i) incorporates gender-sensitive actions in the design and operation of urban infrastructure and social facilities, including roads, community development and service centers, sports complex, kindergartens, primary health care center, and green public spaces; (ii) strengthens response and prevention services for victims of domestic violence and gender-based violence through at least two capacity building activities of five multidisciplinary teams comprising frontline service providers; (iii) increases community and service providers' knowledge on gender inequality and the safety of girls and women through at least 10 public awareness-raising events in each subcenter, with at least 70% female participation; (iv) strengthens the role of women within the community-based organizations such as community development councils and subcenter development councils through empowerment and leadership in community-based organizations; and (v) supports the prevention of sexual harassment, exploitation, and abuse.

#### **E. Safeguards**

33. In compliance with ADB's Safeguard Policy Statement (2009), the project's safeguard categories are as follows.<sup>23</sup>

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<sup>23</sup> ADB. [Safeguard Categories](#).

34. **Environment (category B).** The initial environmental examination and environmental management plan for tranche 3 were prepared based on the feasibility study report, and were disclosed on the ADB website on 8 April 2020. A general environmental impact assessment for tranche 3 was issued by the Ministry of Environment and Tourism in October 2019, which concluded that tranche 3 is subject to detailed environmental impact assessment (DEIA) pursuant to the requirements of the Mongolian Law on Environmental Impact Assessment (2012). The draft DEIA has been prepared and is expected to be approved by the Ministry of Environment and Tourism after public consultation meetings at the *khoro* (municipal subdistrict) level are conducted.<sup>24</sup> Approval of the DEIA is a prerequisite for starting the civil works. Potential environmental impacts, which are largely site-specific and short-term disturbances, are insignificant and reversible. Construction-related disturbances such as noise, dust, soil erosion, surface water sedimentation, solid and liquid waste pollution, worker camp disturbances, traffic safety, and worker and public safety can be managed with national standards and guidelines on construction practices. Operation-related disturbances such as increased traffic congestion, water consumption, wastewater, and waste can be managed by operational entities based on the operation and maintenance plan. Public consultation meetings that identified environmental issues and concerns, and appropriate impact mitigations, were conducted in June 2019 in Sharkhad and Tolgoit. The environmental assessment and review framework prepared for the entire investment program was updated and disclosed on the ADB website on 8 April 2020. The project implementation consulting team will develop and deliver training courses to MUB and PMO staff to strengthen their capacity to oversee and monitor contractors' implementation of the environmental management plan.

35. **Involuntary resettlement (category A).** The 2016 resettlement framework for the MFF has been updated based on the implementation experiences in tranche 1 and to reflect the changes in the national requirements. The updated resettlement framework for tranches 2 and 3 is compliant with ADB's Safeguard Policy Statement and does not lower the standards adopted in the 2016 resettlement framework. A land acquisition and resettlement plan (LARP) for the two tranche 3 subcenters has been prepared based on the feasibility designs and the updated resettlement framework. The LARP will be updated upon completion of the detailed designs of the subprojects. A total of 846 land parcels with a land area of 297,740 square meters will be affected, of which 474 will be fully affected. A total of 1,350 households will be affected, including 1,324 residential households and 26 business entities; 1,270 of the 1,350 affected households will experience major impacts.<sup>25</sup> In addition to the 26 business entities, economic displacement impacts will occur to 87 residential households that have income-generating activities on their residential parcels. A total of 5,170 people are estimated to be affected. A social housing facility with 50 apartment units will be constructed under tranche 3 and will be utilized for relocation of affected households without legal title to the impacted properties. The institutional arrangements and grievance redress mechanisms for resettlement implementation established under tranche 1 will be continued for tranche 3, with adequate enhancements incorporating tranche 1 implementation experiences and lessons. While the PMO and MUB have the required capacity and staff with experience in implementing LARPs, ADB will continue its technical assistance programs for capacity building initiatives on livelihood restoration and the training of PMO, MUB, and Land Management Agency staff on the implementation of LARPs. The PMO will be supported by consultants on the preparation and implementation of LARPs. The MUB is committed to work closely with ADB to ensure compliance with ADB requirements on involuntary resettlement.

<sup>24</sup> Because of the outbreak of coronavirus disease, the government has suspended any public gathering of more than eight people. The consultant will organize public consultations as soon as the moratorium is lifted.

<sup>25</sup> Affected households that (i) are physically displaced from housing or (ii) lose 10% or more of their productive assets (income generating) are considered households with major impacts.

36. **Indigenous peoples (category C).** The indigenous peoples safeguard requirements are not triggered, as the population in the project areas does not include communities that could be treated as such under ADB's Safeguard Policy Statement.

## F. Summary of Risk Assessment and Risk Management Plan

37. There are no high or substantial risks identified for tranche 3. The overall risk assessment of the project is *moderate*, and the benefits and impact are expected to outweigh the costs. Significant risks and mitigating measures are summarized in Table 4 and described in detail in the risk assessment and risk management plan.<sup>26</sup>

**Table 4: Summary of Risks and Mitigating Measures**

<b>Risks</b>	<b>Mitigation Measures</b>
Policy reforms are delayed or prevented by political interference	The program will continue to support the development and implementation of a reform road map, and strengthen the awareness of the program stakeholders through a combination of high-level advocacy and awareness campaigns.
Delays in commencement of civil works because of the long preparation period required for negotiated settlements with affected people	The program management office will ensure that requirements for resettlement will be minimized through extensive community consultations during the detailed design of tranche 3 to reach a consensus on the project scope and resettlement plans. Baselines for land compensation for affected people will be agreed with the Municipality of Ulaanbaatar.
Possibility of tranche 3 not being completed by the end of the multitranche financing facility validity period	Tranche 2 project implementation consulting team is preparing a detailed engineering design for tranche 3 and will continue to provide project implementation support for tranche 3. Resettlement plan updating will also be conducted under tranche 2. The Municipality of Ulaanbaatar has committed to provide adequate counterpart funds and human resources to complete tranche 3 in time for the Asian Development Bank's project completion review in case it is not completed by end of the multitranche financing facility validity period.

Source: Asian Development Bank.

## V. ASSURANCES

38. The government and the MUB have assured ADB that implementation of the project shall conform to all applicable ADB policies including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the updated facility administration manual and loan documents.

39. The government and the MUB have agreed with ADB on certain covenants for the project, which are set forth in the loan and project agreements.

## VI. THE PRESIDENT'S DECISION

40. On the basis of the approval by ADB's Board of Directors for the provision of loans and grant under the multitranche financing facility in an aggregate principal amount not exceeding \$163,700,000 equivalent to Mongolia for the Ulaanbaatar Urban Services and Ger Areas Development Investment Program, the President has approved the tranche as described in para. 20 and such other terms and conditions as are substantially in accordance with those set forth in the draft loan and project agreements.

<sup>26</sup> The updated risk assessment and risk management plan is in Appendix 14.