



Technical Assistance Report

Project Number: 49430-001
Transaction Technical Assistance (TRTA)
November 2017

Mongolia: Preparing the Aimag and Soum Centers Regional Development Investment Program (Financed by the Japan Fund for Poverty Reduction)

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 17 November 2017)

Currency unit	–	togrog (MNT)
MNT1.00	=	\$0.000409
\$1.00	=	MNT2,447.5

ABBREVIATIONS

ADB	–	Asian Development Bank
EIA	–	environmental impact assessment
MCUD	–	Ministry of Construction and Urban Development
RRP	–	report and recommendation of the President
RUC	–	regional urban cluster
SOE	–	statement of expenditure
TA	–	technical assistance

NOTE

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

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TRANSACTION TECHNICAL ASSISTANCE AT A GLANCE

1. Basic Data		Project Number: 49430-001	
Project Name	Preparing the Aimag and Soum Centers Regional Development Investment Program	Department /Division	EARD/EASS
Nature of Activity	Project Preparation	Executing Agency	Ministry of Construction and Urban Development
Modality	Regular		
Country	Mongolia		
2. Sector	Subsector(s)	ADB Financing (\$ million)	
		Total	0.00
3. Strategic Agenda	Subcomponents	Climate Change Information	
Inclusive economic growth (IEG)	Pillar 2: Access to economic opportunities, including jobs, made more inclusive	Climate Change impact on the Project	Medium
Environmentally sustainable growth (ESG)	Urban environmental improvement		
Regional integration (RCI)	Pillar 2: Trade and investment Pillar 4: Other regional public goods		
4. Drivers of Change	Components	Gender Equity and Mainstreaming	
Governance and capacity development (GCD)	Civil society participation Institutional development	Effective gender mainstreaming (EGM)	✓
Knowledge solutions (KNS)	Knowledge sharing activities		
Partnerships (PAR)	Civil society organizations Implementation International finance institutions (IFI) Official cofinancing Private Sector		
Private sector development (PSD)	Public sector goods and services essential for private sector development		
5. Poverty and SDG Targeting		Location Impact	
Geographic Targeting	Yes	Not Applicable	
Household Targeting	No		
SDG Targeting	Yes		
SDG Goals	SDG6, SDG8, SDG9, SDG11		
6. Risk Categorization			
7. Safeguard Categorization Safeguard Policy Statement does not apply			
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		0.00	
None		0.00	
Cofinancing		1.50	
Japan Fund for Poverty Reduction (Full ADB Administration)		1.50	
Counterpart		0.00	
None		0.00	
Total		1.50	

I. THE ENSUING PROJECT

1. The proposed investment program is a multitranche financing facility which aims to improve basic urban services and promote the local economy in priority *aimag* (province) capitals and *soum* (subunit of an *aimag*) centers of Mongolia.¹ The geographically targeted and integrated approach of the program will focus on priority regional urban clusters (RUCs) that have the potential to promote a more resilient and diversified economy to deliver inclusive and sustainable growth.² The program will be aligned with the following impact: more sustainable development in Mongolia driven by multisector economy and ecological balance achieved. The outcome is population and private sector in targeted RUCs benefitted from improved urban and economic facilities and services. The outputs of the program are (i) municipal infrastructure and urban services in targeted areas improved, (ii) economic infrastructure and facilities in targeted areas improved, (iii) road linkages within targeted urban regions increased, and (iv) capacity in program and institutional management strengthened.

II. THE TECHNICAL ASSISTANCE

A. Justification

2. The transaction technical assistance (TA) will help the Government of Mongolia to prepare the investment program, which is a complex and multisector undertaking that requires full scale due diligence in technical, economic, financial, social, resettlement, environmental, and institutional aspects, including in-depth local urban and socioeconomic assessments.³

B. Outputs and Activities

3. The preparatory work for the investment program and feasibility study are summarized below.

4. **Output 1: Economic and urban development strategy formulated and project components identified.**

- (i) **Urban development law.** This suboutput will (a) review the current urban development law and other relevant laws together with the urban development secondary regulations, norms, and codes; (b) provide technical and urban inputs on the current draft law, urban development secondary regulations, and the city

¹ The proposed TA and program with original title of “Mongolia Secondary Cities and Soum Centers Development Investment Program,” is included in Asian Development Bank (ADB). *Country Operations Business Plan: Mongolia, 2017–2019*. Manila. The title was revised to better reflect the objectives and content of the program. The tentative total cost of the program is estimated at \$700 million. The maximum financing amount available under the multitranche financing facility is expected to be \$600 million. The ADB financing from ordinary capital resources and concessional ordinary capital resources is expected to reach \$360 million (51.4%). ADB-administered cofinancing from ADB trust funds and development partners is expected to reach \$240 million (34.3%). Cofinancing may be provided as loans or grants, and may be parallel or joint. The government will finance \$100 million (14.3%) of the total cost. The total cost of Tranche 1 is estimated at \$200 million.

² As discussed in the approved concept paper, the National Urban Assessment for Mongolia has identified priority RUC systems as key assets to catalyze local urban economic growth. Upgrading infrastructure and creating synergies between economic and urban development in the RUCs will increase economies of agglomeration and critical mass, making RUCs a powerful engine of socioeconomic improvement. Tranche 1 will target RUCs with high potential for growth and high concentration of manufacturing enterprises while still lagging in terms of investment: (i) west RUC, consisting of Olgii, Hovd, and Ulanngom *aimag* capitals and surrounding *soums*; and (ii) east RUC consisting of Choibalsan and surrounding *soums*. Also, investing in these two RUCs that are located beside the western and eastern country borders will promote regional integration and improve connectivity and access to external markets.

³ The TA first appeared in the business opportunities section of ADB’s website on 20 November 2017.

and town planning and development norm BNBD 30-01-01; (c) provide relevant inputs on the 2030 Ulaanbaatar master plan that is related to the law; (d) recommend ease of doing business and other governance-related indicators to promote local employment and entrepreneurs; and (e) support the development of final legal document and relevant norms, codes, and regulations.

- (ii) **Regional urban development plan.** In the selected RUCs, the following will be undertaken: (a) assess human settlement development and migratory dynamics; (b) analyze the urban and rural linkage and integration challenges; (c) assess the current urban infrastructure shortages (including operation and maintenance challenges) and their impact on the environment and urban growth; (d) develop urban development scenarios, trends, and service demands; (e) study local natural resources available to sustain urban growth for each key human settlements; (f) formulate an urban cluster and corridor development strategy; and (g) agree on the urban development scenario and develop an urban development plan including vision, strategic objectives, and targets and indicators in accordance with the economic development plan.
- (iii) **Regional economic and business development plan.** Specific activities in the selected RUCs include: (a) undertake a sound analysis of the economic and industrial situation; (b) review the local situation in national and international contexts; (c) identify the main economic actors and assess the business development trends and potential; (d) assess the environmental impacts of existing industries and enterprises; (e) formulate a regional business development plan and a job creation plan using clear vision, strategic objectives, and targets and indicators; (f) identify current physical bottlenecks and policy issues to develop strategic objectives, identify physical (urban and economic infrastructure, services, facilities) and non-physical actions (policies, regulation, capacity, institutional) necessary to achieve the plan (especially identified main rules and regulations that support or impede business creation and small- and medium-sized enterprise development); and (g) synchronize and synergize the economic and business plan with the urban development plan.
- (iv) **Local development plan and priority components.** Combining both urban and economic development plans, this suboutput will (a) produce a local development plan with specific focus on green development and poverty reduction and social development, (b) select priority *aimag* capitals and *soum* centers for investment, (c) formulate a model for comprehensive and integrated development for *aimag* capitals and *soum* centers, (d) develop a regional and cluster approach to share and optimize both urban and economic infrastructure, (e) identify local urban-rural economic potential synergies and linkages, and (f) identify priority components to be financed to meet the economic and urban development strategic objectives and vision. Local development plans (a) will also assess the risks associated with extreme weather events (especially *dzuds*)⁴ and consequences for rural-urban migration, and find ways to mitigate them, and (b) should be in line with the National Program on Reduction of Air and Environment Pollution, 2017–2025 and

⁴ *Dzud* is a Mongolian term for a severe winter in which large number of livestock die, primarily due to starvation caused by lack of grass pasture, and in other cases, directly from the cold.

the proposed policy-based loan on Ulaanbaatar Air Quality Improvement Program.⁵

5. **Output 2: Investment program prepared and feasibility study completed.**

- (i) **Component design.** This suboutput will review the technical design of all program components to make sure they are (a) technically sound and socially inclusive; (b) environmentally sustainable, compatible with local conditions, and meet all relevant technical standards and safeguard requirements; and (c) suitable for Asian Development Bank (ADB) financing support. Based on the analyses and best national and international practices, the scope and the technical design of each program component will be refined and finalized.
- (ii) **Economic analysis.** Full economic analyses of the program will be conducted, including contingent valuation survey and analysis, least-cost analyses, cost effectiveness analyses, and affordability analyses, where applicable, to ensure that economic analyses are carried out in accordance with the revised Guidelines for the Economic Analysis of Projects and the 10 key areas of economic analysis.⁶ Economic rationale will be developed and economic justification will be evaluated for each program component and the program as a whole. The required appendix for the report and recommendation of the President (RRP) will be prepared.
- (iii) **Financial analysis.** Financial review and analysis of each program component will be undertaken as well as detailed assessment of financial performance of the executing and implementing agencies in accordance with ADB guidelines.⁷ The required appendix for the RRP will be prepared, fund flow and disbursement mechanisms of the ensuing project based on the results of the financial management assessment will be designed, and the need for use of advance fund and statement of expenditure (SOE) procedures will be identified. In case the advance fund and SOE procedure are proposed, assessment on the relevant entity's capacity to manage the advance fund and SOE procedure, particularly without specific ceilings, will be conducted.
- (iv) **Institutional and financial arrangements.** The program will strengthen regulatory, financial, and institutional framework and establish sustainable solutions for service delivery. The following activities will be undertaken: (a) analyze all different options to leverage private sector support and identify the best combination of investment instruments available, (b) analyze advantages and challenges of having private sector participation and inform on the possibility to structure public-private partnership, (c) analyze suitable public-private partnership transactions, and (d) develop mechanisms to ensure the sustainability of the implementation arrangements.

⁵ ADB. 2017. *Transaction Technical Assistance to Mongolia for Preparing the Ulaanbaatar Air Quality Improvement Program*. Manila.

⁶ ADB. 2017. *Guidelines for the Economic Analysis of Projects*. Manila; ADB. 2004. *Key Areas of Economic Analysis of Projects: An Overview*. Manila.

⁷ ADB. 2005. *Financial Management and Analysis of Projects*. Manila; ADB. 2014. *Preparing and Presenting Cost Estimates for Projects and Programs Financed by the Asian Development Bank*. Manila; ADB. 2002. *Guidelines for the Financial Governance and Management of Investment Projects Financed by the Asian Development Bank*. Manila.

- (v) **Poverty and social assessment.** A qualified survey institute will be engaged to conduct a household survey and community consultations for poverty and social analysis in accordance with ADB requirements.⁸ A consultation and participation plan will be prepared, key informant and focus group discussions will be conducted, survey data will be analyzed, and a poverty and social analysis will be prepared, which will provide the basis for recommendations for design, implementation, and monitoring to strengthen the program's development impacts. Based on this analysis, a social action plan and a summary poverty reduction and social strategy, in accordance with ADB guidelines and templates will be prepared.
- (vi) **Gender action plan.** In accordance with ADB guidelines,⁹ a gender action plan will be prepared with the objective of ensuring that the program design includes and maximizes benefits for women and meets effective gender mainstreaming categorization requirements. Sex-disaggregated baseline/proxy data for targets to be set in the investment program will be prepared and gender analysis will be conducted to identify gender needs and constraints of project beneficiaries.
- (vii) **Community participation plan and public awareness campaign program.** Through participatory approach, a comprehensive communications strategy and detailed development plan for community involvement and public awareness based on the 2012 Guidelines on Participation will be prepared.¹⁰
- (viii) **Environmental assessment.** This will support the Ministry of Construction and Urban Development (MCUD) to prepare and submit an official request to the Ministry of Environment and Tourism to conduct a general environmental impact assessment (EIA). Should the Ministry of Environment and Tourism conclude that a detailed EIA is needed for the program, support to MCUD in contracting a licensed EIA institute, and supervising the preparation of the detailed EIA report will be provided. The initial environmental examination and the environmental assessment and review framework will be prepared to meet the requirements specified in ADB's Safeguard Policy Statement (2009). The initial environmental examination, to be prepared in English and Mongolian, will include (a) public consultation, (b) assessment of impacts and risks, and (c) development of environmental management plan. Further, a climate risk and vulnerability assessment considering risks associated with extreme weather events (especially *dzuds*) and consequences for rural-urban migration will be prepared.
- (ix) **Climate change resiliency.** This suboutput will assess how the investment program will (a) be a powerful driver to improve the regulatory and enforcement framework for a climate responsive urban/regional planning and local green infrastructure and construction; and (b) lead transformational impacts on policies, institutions, and sector capacity for energy efficient construction material and

⁸ ADB. 2012. *Handbook on Social Analysis: A Working Document*. Manila; ADB. 2006. *Poverty Handbook Analysis and Processes to Support ADB Operations: A Working Document*. Manila; ADB. 2001. *Handbook for Integrating Poverty Impact Assessment in Economic Analysis of Projects*. Manila; ADB. 2006. *Strengthening Participation for Development Results: Staff Guide to Consultation and Participation*. Manila; ADB. 2006. *Core Labor Standards Handbook*. Manila.

⁹ ADB. 2003. *Policy on Gender and Development*. Manila; ADB. 2010. *Gender Checklists and Toolkit*. Manila.

¹⁰ ADB. 2012. *Strengthening Participation for Development Results: An Asian Development Bank Guide to Participation*. Manila.

techniques, effective community participation, renewable energy systems, efficient supply chains for renewable energy systems, and comprehensive urban planning that will combine climate resilience, social cohesion, and economic opportunities. Thus, the project will serve as an important demonstration initiative that can be replicated within the priority *aimags* and *soums* and in other Mongolian cities and administrative divisions.

- (x) **Assessment of social impacts for involuntary resettlement.** Social impact assessment for involuntary resettlement will be conducted to cover the identification of past, present, and future potential impacts based on (a) meaningful consultations, (b) baseline data analysis including census and asset inventory, (c) gender-disaggregated information pertaining to the economic and socio-cultural conditions of the affected persons, (d) analysis of potential impacts on vulnerable individuals and groups, and (e) replacement cost survey. The social impact assessment for involuntary resettlement, including measures to enhance or at least restore the livelihoods of the affected persons, potential benefit-sharing, and opportunities resulting from socioeconomic development, establishment of grievance redress mechanism, institutional arrangements, budget, schedule, and monitoring, will become the basis for the consultant to prepare the resettlement plans. Assistance to the government in the disclosure of the resettlement plans and in preparation of a resettlement framework for the investment program and subsequent tranches will be provided.
- (xi) **Ethnic minority (indigenous peoples) assessment and plan.** A thorough scoping of ethnic minority issues will be conducted in the program area and, if deemed necessary, an ethnic minority development plan (with summary) and ethnic minority development framework for subsequent tranches, in accordance with ADB requirements will be prepared.¹¹
- (xii) **Procurement plan and procurement documents.** A comprehensive project procurement risk assessment of the implementing agency in accordance with ADB guidelines and template will be undertaken.¹² Based on this assessment and technical requirements of each program component, a procurement plan for Tranche 1 will be prepared. Support to the preparation of detailed terms of reference for consulting services packages and bidding documents for works and goods packages under Tranche 1 will be provided, including necessary guidance and technical support during consulting services selection.
- (xiii) **Institutional strengthening and capacity development plan.** A capacity development plan presenting specific actions for trainings and institutional strengthening measures, based on institutional assessment, financial management, procurement, planning, technical engineering, operation and maintenance, and program management capacities of MCUD and other concerned stakeholders will be prepared.
- (xiv) **Multitranche financing facility constituents.** Relevant inputs to prepare the framework financing agreement constituents: sector road map, including specific

¹¹ Safeguards Requirements on Indigenous Peoples in ADB's *Safeguard Policy Statement* (2009).

¹² ADB. 2017. *Improving ADB Project Performance through Procurement Reforms*. Manila; ADB. 2015. *Guide on Assessing Procurement Risks and Determining Project Procurement Classification*. Manila.

sector investment plans, strategic context, policy framework, investment program or investment plan, financing plan, undertakings, and periodic financing request for Tranche 1 will be provided.

6. **Output 3: Aid effectiveness and project readiness enhanced.** Technical inputs at the initial stage of program implementation will be provided to expedite the advance contracting and engagement of consulting firms for Tranche 1. Specific activities include (i) review of consulting services requirements and identification of appropriate selection methods; (ii) preparation of detailed terms of reference for consulting services contract packages, i.e., detailed design, construction supervision, and program management office support; (iii) support in the shortlisting of consulting firms, including preparation of requests for proposals and criteria for consultant recruitment, and in the evaluation of financial and technical proposals; (iv) guidance on program management office organization, decision-making structure, and institutional setting and operation; and (v) provide technical advice and training in the process of selection of consultants in accordance with ADB regulations.

C. Cost and Financing

7. The TA is estimated to cost \$1,600,000, of which \$1,500,000 will be financed on a grant basis by the Japan Fund for Poverty Reduction and administered by ADB. The key expenditure items are listed in Appendix 1. The government will provide counterpart support in the form of office accommodation, venues for workshops and training, communication facilities for consultants, remuneration and per diem of counterpart staff, administrative support, and other in-kind contributions. The government was informed that approval of the TA does not commit ADB to finance any ensuing project.

D. Implementation Arrangements

8. ADB will administer the TA, and engage a consulting firm and individual consultants in accordance with ADB Procurement Policy (2017, as amended from time to time) and the associated project administration instructions and TA Staff Instructions.

Implementation Arrangements

Aspects	Arrangements		
Indicative implementation period	15 December 2017–15 November 2019		
Executing agency	Ministry of Construction and Urban Development		
Implementing agency	Ministry of Construction and Urban Development		
Consultants	To be selected and engaged by ADB		
	Quality- and cost-based selection method	International (34.5 person-months)	\$776,250
		National (66.5 person-months)	\$265,000
	Individual consultants selection	International (5.5 person-months)	\$123,750
National (8.5 person-months)		\$35,000	
Procurement	To be procured by consultants		
	Shopping	5 contracts	\$18,000
Disbursement	The TA resources will be disbursed following ADB's <i>Technical Assistance Disbursement Handbook</i> (2010, as amended from time to time).		
Asset turnover or disposal arrangement upon TA completion	TA equipment will be procured in accordance with ADB Procurement Policy (2017, as amended from time to time) and the associated project administration instructions and TA Staff Instructions, and transferred to the executing agency upon TA completion.		

ADB = Asian Development Bank, GIS = geographic information system, TA = technical assistance.
Source: ADB.

9. **Consulting services.** The TA will require 115 person-months of consulting inputs from 14 international experts (40 person-months) and 16 national experts (75 person-months).¹³ ADB will select and engage a consulting firm using quality- and cost-based selection method, with 90:10 quality–cost ratio and full technical proposal procedure.¹⁴ In addition, individual consultants will be engaged (i) to work on the urban development legal and regulatory framework; and (ii) after submission of the draft final report, to support start-up activities of the ensuing loan, on as need basis using the contingencies. Contingencies may be allocated to recruit additional experts based on needs that will emerge during TA implementation.

10. Additional support of approximately \$300,000 will be sought from the Cities Development Initiative for Asia to include the west central Khangai RUC in the TA studies, strengthen the regional and local economic studies, update the National Urban Assessment for Mongolia, and upgrade the web-based mapping platform developed under the National Urban Assessment. The TA Supervision Unit officer will be responsible for preparing a TA completion report required by ADB, with copy to the Office of Cofinancing Operations.

11. **Cofinancier requirements.** A TA letter signing ceremony with press coverage will be organized. To enhance visibility, a representative from the Japanese Embassy in Mongolia will be invited. The TA will ensure clear references to the financial contribution of the Government of Japan during major project activities and for major outputs (i.e., workshops, publications, press releases, speeches); and use the Japan Fund for Poverty Reduction and Japan aid logos on correspondence, workshop material, banners, and any media publication. The Japanese Embassy in Mongolia will be informed about the TA progress, milestones, and deliverable, especially when major changes in scope and objectives are required. Due to the proposed program's interdependence with Japan International Cooperation Agency's involvement in urban and regional development sector in Mongolia, close cooperation and coordination is expected in the future at the strategic and policy level, and at implementation and financing level.

III. THE PRESIDENT'S DECISION

8. The President, acting under the authority delegated by the Board, has approved ADB administering technical assistance not exceeding the equivalent of \$1,500,000 to the Government of Mongolia to be financed on a grant basis by the Japan Fund for Poverty Reduction for Preparing the Aimag and Soum Centers Regional Development Investment Program, and hereby reports this action to the Board.

¹³ Terms of Reference for Consultants (accessible from the list of linked documents in Appendix 2).

¹⁴ The quality–cost ratio of 90:10 will be adopted due to the project design complexity.

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Amount
Japan Fund for Poverty Reduction^a	
1. Consultants	
a. Remuneration and per diem	
i. International consultants	900.0
ii. National consultants	300.0
b. Out-of-pocket expenditures	
i. International and local travel	90.0
ii. Goods (purchase) ^b	18.0
iii. Surveys ^c	20.0
iv. Training, seminars, and conferences ^d	15.0
v. Reports and communications	10.0
2. Miscellaneous administration and support costs	15.0
3. Contingencies	132.0
Total	1,500.0

Note: The technical assistance (TA) is estimated to cost \$1,600,000, of which contributions from the Japan Fund for Poverty Reduction are presented in the table above. The government will provide counterpart support in the form of office accommodation, venues for workshops and training, communication facilities for consultants, remuneration and per diem of counterpart staff, administrative support, and other in-kind contributions. The value of government contribution is estimated to account for 6.25% of the total TA cost.

^a Administered by the Asian Development Bank (ADB).

^b Equipment will be purchased following ADB's Procurement Policy (2017, as amended from time to time) and the associated project administration instructions and TA Staff Instructions and will be turned over to the executing agency upon completion of TA activities.

^c To be subcontracted under the consulting firm contract.

^d Training, seminars, and conferences (including translation and interpretation) will be conducted by the consultants.

Source: ADB.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/LinkedDocs/?id=xxxxx49430-xxx001-TARreport>

1. Terms of Reference for Consultants
2. Approved Project Concept Paper