



Periodic Financing Request Report

Project Number: 45007
MFF Number: 0078
March 2017

Mongolia: Ulaanbaatar Urban Services and *Ger* Areas Development Investment Program (Tranche 2)

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 6 March 2017)

Currency unit	–	togrog (MNT)
MNT1.00	=	\$0.000403
\$1.00	=	MNT2,478.39

ABBREVIATIONS

ADB	–	Asian Development Bank
CAP	–	community action plan
EIB	–	European Investment Bank
EIRR	–	economic internal rate of return
EMP	–	environmental management plan
FAM	–	facility administration manual
FFA	–	framework financing agreement
FIRR	–	financial internal rate of return
FMA	–	financial management assessment
GAP	–	gender action plan
GRM	–	grievance redress mechanism
IEE	–	initial environmental examination
km	–	kilometer
LARP	–	land acquisition and resettlement plan
m ³	–	cubic meter
MFF	–	multitranches financing facility
MUB	–	Municipality of Ulaanbaatar
O&M	–	operation and maintenance
OCR	–	ordinary capital resources
PMO	–	program management office
PPMS	–	project performance management system
SDAP	–	social development action plan
SME	–	small- and medium-sized enterprise
SPS	–	Safeguard Policy Statement

NOTE

In this report, "\$" refers to US dollars.

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TRANCHE AT A GLANCE

1. Basic Data		Project Number: 45007-005	
Project Name	Ulaanbaatar Urban Services and Ger Areas Development Investment Program - Tranche 2	Department /Division	EARD/EASS
Country Borrower	Mongolia Mongolia	Executing Agency	Municipal Government of Ulaanbaatar
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Water and other urban infrastructure and services	Urban policy, institutional and capacity development		8.40
	Urban slum development		20.84
Energy	Energy utility services		18.56
Transport	Urban roads and traffic management		18.55
		Total	66.35
3. Strategic Agenda	Subcomponents	Climate Change Information	
Inclusive economic growth (IEG) Environmentally sustainable growth (ESG)	Pillar 2: Access to economic opportunities, including jobs, made more inclusive Urban environmental improvement	Climate Change impact on the Project	Low
4. Drivers of Change	Components	Gender Equity and Mainstreaming	
Governance and capacity development (GCD)	Anticorruption Civil society participation	Effective gender mainstreaming (EGM)	✓
Knowledge solutions (KNS)	Application and use of new knowledge solutions in key operational areas Pilot-testing innovation and learning		
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	No	Urban	High
Household Targeting	No		
SDG Targeting	Yes		
SDG Goals	SDG11		
6. Risk Categorization:	Complex		
7. Safeguard Categorization	Environment: B Involuntary Resettlement: A Indigenous Peoples: C		
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		66.35	
Sovereign MFF-Tranche (Loan) (Concessional Loan): Ordinary capital resources		29.24	
Sovereign MFF-Tranche (Loan) (Regular Loan): Ordinary capital resources		37.11	
Cofinancing		0.00	
None		0.00	
Counterpart		35.15	
Government		35.15	
Total		101.50	
9. Effective Development Cooperation			
Use of country procurement systems		Yes	
Use of country public financial management systems		Yes	

TRANCHE AT A GLANCE

Date of Receipt by ADB of PFR: 16 November 2016

Tranche Number: 2

10. Country Operations Business Plan

CPS

<https://www.adb.org/documents/mongolia-interim-country-partnership-strategy-2014-2016>

COBP

<https://www.adb.org/sites/default/files/institutional-document/183451/cobp-mon-2016.pdf>

11. Tranche Summary

Tranche 2 of the multitranche financing facility will (i) extend the urban infrastructure upgrading and spatial restructuring to two additional subcenters in the northern ger areas, namely Dambadarjaa and Denjiin, and provide additional investments in Selbe and Bayankhoshuu subcenters under Tranche 1; (ii) support the delivery of socioeconomic facilities; and (iii) further improve institutional strengthening and capacity building.

Impact: Improved living conditions in Ulaanbaatar.

Outcome: A network of livable, competitive, and inclusive subcenters in Ulaanbaatar's ger areas.

Outputs: (i) roads and urban services are expanded, (ii) economic and public services in targeted areas are improved, and (iii) institutional capacity for program management and urban development are strengthened through the engagement of consulting services for (a) project management and implementation support; (b) detailed design, construction supervision, and engineering services inputs on Project 3 feasibility study; and (c) subcenter planning and development, community participation, small- and medium-sized enterprise development in Dambadarjaa and Denjiin, and completion of Project 3 feasibility study.

Implementation Arrangements: Municipal Government of Ulaanbaatar will be the executing agency.

Project Readiness: Project 2's final feasibility study report has been submitted. The program management office is adequately staffed to start the engagement process for Project 2 consulting services. Due diligence has been appraised, and the resettlement plan and framework, IEE, and updated environmental assessment and review framework were approved in December 2016.

12. Significant Developments in the MFF and Previous Tranches

Tranche 1 has been implemented for approximately 39.0 months from approval date (70.6% of the overall implementation time). Significant achievements to date are (i) local plans for each of the targeted subcenters for Tranche 1 and Tranche 2 have been prepared; (ii) the urban redevelopment law was approved on 6 June 2015 by the Mongolian Parliament; (iii) the construction of khoroo buildings, a 50-transit apartment each for Selbe and Bayankhoshuu subcenters, were completed; (iv) a coordination body for implementation of affordable housing activities and strategy, the City Housing Corporation, was set up in August 2015 by the Resolution of City Council Representatives; and (v) the commitment and support from the MUB and the Government toward the project remains very high.

13. Milestones

Estimated Approval
31 March 2017

Estimated Completion^a
28 February 2022

14. Linked Documents

	Required Document	Disclosure Date
(i) Environment	IEE - Initial Environment Examination	
Weblink:	https://www.adb.org/projects/documents/mon-uusgadip-t2-updated-dec-2016-iee	23-FEB-2017
	IEE - Initial Environment Examination	
	https://www.adb.org/projects/documents/mon-uusgadip-t2-dec-2016-iee	28-DEC-2016
	EARF - Environmental Assessment and Review Framework	
	https://www.adb.org/projects/documents/mon-uusgadip-t2-aug-2016-earf	28-DEC-2016
(ii) Involuntary resettlement	RF - Resettlement Framework	
Weblink:	https://www.adb.org/projects/documents/mon-uusgadip-t2-nov-2016-rf	14-DEC-2016
	RP - Resettlement Plan	
	https://www.adb.org/projects/documents/mon-uusgadip-t2-dec-2016-rp	14-DEC-2016

^a For Tranches, this refers to the financial closing date.

I. BACKGROUND

1. Ulaanbaatar city is home to more than 1.4 million people. The city's core largely comprises apartment blocks served by comprehensive utility services, including district heating, piped water supply, and wastewater collection and treatment. Surrounding the core is a vast and low-density peri-urban area (so-called *ger* areas) with poor infrastructure that accommodates about 60% of the city's population (about 840,000 inhabitants).¹ *Ger* areas have spread and expanded through successive waves of migration.² These low- and medium-income household settlements are characterized by loosely aligned plots, creating irregular pathways that remain unpaved.³ The majority of households have land tenure. A lack of basic urban services affects the *ger* area residents' health and living conditions through (i) severe air pollution generated by unimproved individual coal stoves used by most residents during winter;⁴ (ii) poor sanitation from almost exclusive reliance on open pit latrines; (iii) poor solid waste collection; (iv) limited access to potable water (supplied by water kiosks);⁵ and (v) traffic congestion caused by unmanaged road network. Finally, *ger* areas have a critical lack of public space, public facilities, commercial areas, and economic opportunities.

2. **Investment program.** On 12 December 2013, the Asian Development Bank (ADB) approved the Ulaanbaatar Urban Services and *Ger* Areas Development Investment Program using the multitranche financing facility (MFF) modality. The program's framework financing agreement (FFA) was signed on 9 December 2013 and ratified by the Mongolian Parliament on 23 May 2014. The implementation period is 9 years (December 2013–December 2022) and comprises three tranches. It supports the Ulaanbaatar city master plan in upgrading priority services and developing economic hubs (subcenters) in *ger* areas. It is geographically targeted with multisector interventions. Responding to the urgent demand for basic urban services and the ongoing densification, it proposes an integrated solution to initiate a redevelopment process in *ger* areas and develop urban subcenters as catalysts for growth. Improving infrastructure within the *ger* area subcenters is critical for the city's inclusive development. Better urban planning combined with infrastructure along priority roads will initiate the structural change of subcenters. This will (i) improve residents' access to basic urban services, public space, and socioeconomic facilities; (ii) support local economic development; (iii) allow residents and businesses to take advantage of urban economies; and (iv) provide better housing options. The changes in land use and urban density will improve efficiency and financial sustainability of water, sanitation, and heating services delivery. The first tranche is financing priority infrastructure, facilities, and capacity building to develop the Selbe and Bayankhoshuu subcenters.⁶

3. **Financing plan.** The overall program cost is \$320 million. The Government of Mongolia has requested an MFF of up to \$163.7 million from a blend of ADB resources: the Asian Development Fund, ordinary capital resources (OCR), concessional OCR, and ADB-administered cofinancing from ADB trust funds. It is expected that the Municipality of Ulaanbaatar (MUB) will finance \$96 million, or 30% of the cost, including taxes and duties, resettlement, and other

¹ Almost 56% of the *ger* area population lives in solid houses and 44% lives in traditional *gers*.

² Since 2010, the estimated average population growth in *ger* areas was 25,000 inhabitants per year. This represents more than half of the city's 3.8% annual growth rate. If this trend continues, the population of the *ger* areas will grow by 250,000 over the next 10 years, fueled by both in-migration and natural growth.

³ The average household monthly income in *ger* areas is \$380.

⁴ In winter, the rate per cubic meter (m^3) of particulate matter smaller than 2.5 micrometers is seven times higher than what is allowed by the World Health Organization. Winter in Mongolia lasts up to 5 months.

⁵ Water consumption in *ger* areas is 8–10 liters per capita per day (more than half the recommended minimum by the World Health Organization in similar contexts). Residents pay 2–10 times more than non-*ger* area residents.

⁶ In line with the Government Action Plan for 2016–2020, which is based on the "Mongolia Sustainable Development Vision 2030," ADB and other national and international agencies are also supporting the sustainable development of priority urban settlements to balance the country territorial development and mitigate migration to Ulaanbaatar.

miscellaneous costs. Cofinancing, which is estimated at \$60.3 million equivalent, may be provided as loans or grants. On 30 June 2014, the European Investment Bank (EIB) signed a parallel cofinancing of up to €50 million to finance the overall program's water supply and sanitation subprojects.

II. ASSESSMENT OF IMPLEMENTATION

4. **Implementation performance.** Tranche 1 has been implemented for 39.0 months from the approval date (70.6% of the overall implementation time). As of 28 February 2017, the overall contract award was at 20.5% (\$10.99 million), while total disbursement was at 12.7% (\$6.84 million).⁷ There was about a 12-month delay because of the (i) lengthy process of MFF ratification, loans and grant agreements signing, and consulting services firms' selection and mobilization; (ii) necessary adjustment of infrastructure design based on the detailed local plan of the targeted areas; and (iii) lengthy process of detailed design approvals. A program management office (PMO) has been established.⁸ Improvements in the implementation capacity and efficiency of the PMO, supported by consulting services, have increased overall project implementation performance.⁹ The MUB and the government's commitment to, ownership of, and support for the program and its road map remains high.¹⁰ Most of the detailed design for Project 1 has been completed and received the approval of the State expertise. Civil works construction is expected to be substantially completed by 2018 and loan closing date is scheduled in December 2019.¹¹

5. **Compliance with loan covenants and FFA undertakings.** Compliance by the government with the loan covenants and FFA undertakings has been satisfactory. The signing of the relending agreement between the Borrower and the MUB, and the signing of the EIB Loan Agreement have been complied with. Of the total 104 loan covenants, 88 (84.6%) are being complied with, 13 (12.5%) to be complied with, and 3 (2.9%) are not yet due until project closing date. The road map strategic objectives are still relevant to the program and align with Tranches 1 and 2 outputs and components. Activities and policy frameworks linked to the road maps have been complied with, are being complied with, or are to be complied with. No significant deviance from the road map and policy framework has been recorded. Details of compliance with loan covenants and FFA undertakings are in the periodic financing request that the government submitted. There is no change in Tranche 1 outputs. A change in procurement plan was approved on 22 August 2016 to reflect adjustments in the detailed design. The project is found satisfactory after safeguards and due diligence assessment.

6. **Environment.** ADB reviewed and approved the initial environmental examination (IEE) and environmental management plan (EMP) for Tranche 1. The EMP was included in bid documents and contracts. The IEE and EMP were disclosed on ADB and MUB websites, and information was shared with stakeholders. No major safeguard issues or gaps in implementation were identified. The same review, approval, and disclosure process will be applied to the Tranche

⁷ Total EIB disbursement is \$2.00 million with \$3.50 million worth of contracts awarded. MUB has disbursed \$3.37 million for the project.

⁸ Since December 2014, 14 specialist positions have been fielded, except for the resettlement specialist who was fielded in July 2015. The PMO budget for Tranche 1, financed by ADB, is \$750,000.

⁹ From June to September 2015, four consulting firms were engaged for detailed design and supervision, PMO support, community engagement, and improved urban planning and subcenter development. The PMO has been trained and is now equipped with the skills to manage ADB projects and comply with ADB requirements.

¹⁰ Construction of engineering networks in Selbe and Bayankhoshuu subcenters is a priority action in the Government Action Plan 2016–2020, which was approved by the State Great Khural on 30 September 2016.

¹¹ The total amount of bidding documents received for review or in various stages of bidding process is around \$20 million for ADB financing. Most of the packages will be awarded by June 2017 (70% of the contracts) and the rest will be awarded by December 2017 (tentatively 100% of the contracts). A 1.5-year loan extension was requested during midterm review mission, from original closing date of 30 June 2018 to 31 December 2019.

2 IEE and EMP. A grievance redress mechanism (GRM) was established, and to date, no project complaints have been received. The PMO had submitted semiannual environmental monitoring reports, which were disclosed on the ADB website. Issues identified during due diligence review relate to weak implementation and monitoring of construction impact mitigation and safety measures. Areas of improvement agreed with the government are (i) ensure safety of the public and workers during construction through public safety measures, e.g., the use of protective pedestrian barriers and signage at all sites (though no safety incident has been reported); (ii) update Project 1's EMP and harmonize it with Project 2's EMP; and (iii) update and simplify Project 1's GRM so that it can be applied to projects 2 and 3.

7. **Social safeguards.** Project 1's land acquisition and resettlement plans (LARPs) for Selbe and Bayankhoshuu have been updated, and implementation is ongoing. About 300 households are affected. Land acquisition commenced in July 2016, and most resettlement activities should be completed by 2017. Adequate measures were used to prevent income loss and disruption. Recommendations for urgent attention and lessons learned were discussed and agreed during the October 2016 loan review mission and are now being complied with, including (i) immediate land surface restoration within and/or near the right-of-way after completion of construction work, and (ii) timely provision of compensation and assistance to the affected persons. The MUB and PMO are cooperating to ensure that LARPs will be implemented and supervised satisfactorily. Resettlement workshops and trainings have been organized for the newly elected and appointed MUB and PMO staff. A social monitoring report has been submitted and disclosed. The PMO is engaging an external monitor for Project 1. The indigenous peoples safeguard requirements are not triggered, as the project-area population does not include communities that could be treated as such under the ADB's Safeguard Policy Statement (SPS) (2009).

8. A gender action plan (GAP) and social development action plan (SDAP) were developed and agreed with the MUB and PMO. Due to the implementation delay, the GAP and SDAP have not yet been fully implemented. As of September 2016, out of 11 GAP activities, 3 (27%) are on track, 3 (27%) are partially on track, and 5 (46%) are not yet implemented. Both human and financial resources are available, and there are no major obstacles to implement the action plans. The PMO conducted several consultations and public meetings with beneficiaries, in which female beneficiaries played an active role. The views and concerns of the beneficiaries, especially vulnerable groups, were considered in the components' detailed design. It is recommended to (i) improve the monitoring of GAP and SDAP activities, including reporting through quarterly progress reports and the project performance management system (PPMS); (ii) prioritize identifying the missing baseline data; and (iii) continue timely collection of sex-disaggregated project activity data and reporting of project qualitative assessments. A community action plan (CAP) was developed to strengthen community participation in project design and implementation. To facilitate and support subcenter redevelopment, community development councils and a small- and medium-sized enterprise (SME) development council, with significant female representation, were established. The information, education, and communication campaign programs were launched and are in line with the project progress.¹² The CAP progress is monitored and reported together with the GAP and SDAP through quarterly progress reports.

III. PERIODIC FINANCING REQUEST

A. Impact and Outcome

9. The impact of Tranche 2 is improved living conditions in Ulaanbaatar. The outcome is a network of livable, competitive, and inclusive subcenters in Ulaanbaatar's *ger* areas.¹³

¹² The programs focus on basic hygiene practices, water conservation, urban redevelopment, and SME development.

¹³ The program's outcome indicators, as presented in the FFA, remain valid.

B. Outputs

10. Tranche 2 will (i) extend the urban infrastructure upgrading and spatial restructuring to two additional subcenters in the northern *ger* areas (Dambadarjaa and Denjiin) and provide additional investments in Bayankhoshuu and Selbe subcenters,¹⁴ (ii) support the delivery of socioeconomic facilities, and (iii) further improve institutional strengthening and capacity building.¹⁵

11. **Roads and urban services** will be expanded within priority subcenters, and connectivity between them will be improved through the construction of (i) 7.08 kilometers (km) of priority roads in the subcenters (with street lighting, three bridges, and sidewalks); (ii) 200 meters of flood channels and 7.4 km of drainage; (iii) 13.2 km of electricity cable overhead lines and a 7.1 km cable duct for a telecommunications network; (iv) 24.1 km of water supply pipes, 25.8 km of wastewater pipes, and 6.0 km of district heating pipes and associated equipment; and (v) three heating facilities for a capacity of 112.5 megawatts; as well as through the rehabilitation and expansion of (vi) 6.1 km of a water supply main and 7.2 km of a sewage main.

12. **Economic and public services** in targeted areas will be improved through the construction of (i) four kindergartens in Bayankhoshuu, Dambadarjaa, Denjiin, and Selbe using green building design; (ii) two community development and service centers in Dambadarjaa and Denjiin; (iii) two sports complexes in Bayankhoshuu and Dambadarjaa; and (iv) two urban parks in Bayankhoshuu and Denjiin.

13. **Institutional capacity** for program management and urban development will be strengthened through consulting services for (i) detailed design, construction supervision, and engineering inputs for the Project 3 feasibility study; and (ii) project management and implementation support for Project 2, urban planning and subcenter development, community participation and SME development, and completion of the Project 3 feasibility study.

C. Investment and Financing Plans

14. Tranche 2 is estimated to cost \$121.14 million (Table 1). Detailed cost estimates and financing tables are in the updated facility administration manual (FAM) (Appendix 4).

Table 1: Tranche 2 Investment Plan
(\$ million)

Item	Amount ^a
A. Base Cost^b	
1. Expanded roads and urban services	
1.1 Roads improvement	30.69
1.2 Water supply, wastewater, and drainage services	16.74
1.3 Heating services	32.90
Subtotal (1.1+1.2+1.3)	80.33
2. Improved economic and public services	18.84
3. Institutional strengthening and capacity development	4.29
Subtotal (A)	103.46
B. Contingencies^c	11.06
C. Financing Charges During Implementation^d	6.62
Total (A+B+C)	121.14

¹⁴ Tranche 2 targeted areas have been selected because they are compliant with 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 potentials; (vi) alignment with the city master plan; and (vii) potential synergies with Tranche 1 investments.

¹⁵ Tranche 2 does not have provision for activities that justify mentioning the overall program output on service provider efficiency, even though this output remains valid under Tranche 1 implementation.

^a Includes value-added tax and import duties estimated at \$8.28 million for Tranche 2. The government will finance these taxes and duties through tax exemptions. The Asian Development Bank (ADB) may also finance taxes and duties, particularly for recurrent costs, based on the following principles: (i) the amount is within reasonable country thresholds, (ii) the amount will not represent an excessive share of the project investment plan, (iii) the taxes and duties apply only to ADB-financed expenditures, and (iv) the financing of the taxes and duties is material and relevant to the project's success.

^b In mid-2016 prices.

^c Physical contingencies are computed at 5% of civil works, goods, and consulting services. Price contingencies are computed applying purchasing power parity based on exchange rate and domestic inflation rates: 7.6% in 2016 and 7.0% from 2017 onward; and foreign inflation rates: 1.5% in 2016, 1.4% in 2017, and 1.5% from 2018 onward.

^d Includes interest and commitment charges. Financing charges during implementation of ADB loans are computed at (i) 2.0% per annum for Tranche 2 loan from ADB's concessional ordinary capital resources (OCR); and (ii) 5-year US dollar fixed swap rate plus an effective contractual spread of 0.5%, a maturity premium of 0.1%, and a commitment charge of 0.15% on the undisbursed portion for Tranche 2 loan from ADB's OCR. Financing charges during implementation for the European Investment Bank loan were calculated based on the same assumptions as ADB's OCR loan.

Source: ADB estimates.

15. Table 2 shows the financing plan for Tranche 2. The total investment cost is \$121.14 million, for which the government has requested a loan from ADB for \$66.35 million, or 54.77% of the investment requirement. Of this, 24.14%, or \$29.24 million equivalent, will be financed from concessional OCR, and 30.63%, or \$37.11 million, will be financed from OCR. The concessional OCR loan will have a 25-year term, including a grace period of 5 years, a 2.0% annual interest rate, and repayments in equal amortization. The OCR loan will have a 25-year term, including a grace period of 5 years, an interest rate determined in accordance with ADB's London interbank offered rate-based lending facility, a maturity premium of 0.1%, a commitment charge of 0.15% per year (the interest and commitment charges during construction to be capitalized in the loan), and such other terms and conditions to be set forth in the loan agreements. The government will relend the proceeds of the loans to the MUB upon terms and conditions satisfactory to ADB. Any concessional resource allocation will be subject to (i) the general availability of such resources, (ii) Mongolia's access to such resources pursuant to ADB's then-applicable graduation policy, and (iii) the availability of such resources to Mongolia pursuant to ADB's then-applicable policy on performance-based allocation of these resources.

Table 2: Tranche 2 Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank		
Concessional ordinary capital resources (loan)	29.24	24.14
Ordinary capital resources (loan)	37.11	30.63
Subtotal	66.35	54.77
Cofinancier ^a	19.64	16.21
Municipality of Ulaanbaatar	35.15	29.02
Total	121.14	100.00

^a The European Investment Bank has expressed interest in 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. For Tranche 2, the European Investment Bank will cofinance \$19.64 million. If this cofinancing does not materialize, the Government of Mongolia will undertake measures to substitute for the shortfall with suitable funding.

Source: Asian Development Bank estimates.

16. **Cofinancing and counterpart funds.** EIB will finance \$19.64 million, or 16.21%, of the total financing plan. 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. EIB will cofinance Tranche 2 for civil works and equipment specific to water supply and sewerage improvements, including contingencies and financing charges during implementation. The MUB

will finance the remaining \$35.15 million, or 29.02%, for land acquisition and resettlement support, civil works and equipment, taxes and duties, and contingencies.

D. Implementation Arrangements

17. Tranche 2 will be implemented from April 2017 to February 2022. The investment program's implementation arrangements remain valid. The MUB is the program's executing agency. The implementing agency will be the MUB's project and cooperation unit, headed by Ulaanbaatar Deputy-Governor in charge of infrastructure and *ger* areas development. A PMO has been established under the deputy governor responsible for infrastructure and *ger* districts development. A program steering committee, chaired by the mayor of Ulaanbaatar and comprised of government officials, has been formed to provide strategic and policy guidance. The implementation arrangements are summarized in Table 3. A procurement plan is included in the updated FAM. Goods, works, and consulting services procured under the ADB loans will follow ADB's Procurement Guidelines (2015, as amended from time to time). The project management and implementation support consultant will assist the PMO in implementation. Details of consulting services and terms of reference are in the updated FAM.

Table 3: Implementation Arrangements

Aspects	Arrangements		
Implementation period (program)	December 2013–December 2022		
Estimated completion date (project 2)	August 2021 (loan closing date: February 2022)		
Management			
(i) Oversight body	Program steering committee (mayor of Ulaanbaatar [chair] and representatives of the Ministry of Finance, Ministry of Construction and Urban Development, Ministry of Labor, Ministry of Education, Ministry of Environment and Green Development and Tourism, and other concerned agencies, as needed).		
(ii) Executing agency	MUB		
(iii) Key implementing agency	MUB's project and cooperation unit, headed by Ulaanbaatar Deputy-Governor in charge of infrastructure and <i>ger</i> areas development		
(iv) Implementation unit	The PMO is established under the deputy governor in charge of infrastructure and <i>ger</i> areas development. It will add 10 new staff to the current 14.		
Procurement (project 2)	International competitive bidding	6 contracts	\$49.98 million
	National competitive bidding	5 contracts	\$16.77 million
	Community participation in procurement	1 contract	\$1.00 million
Consulting services (project 2)	Quality- and cost-based selection	International: 246 person-months National: 743 person-months	\$8.60 million
Advance contracting	MUB has requested advance contracting for recruitment of consulting services for detailed engineering design and supervision, and project management support. MUB has been informed that advance contracting is part of the normal procedure, and that ADB's support for advance contracting does not commit ADB to approve the loan project or to finance the recruitment costs.		
Disbursement	The concessional ordinary capital resources loan and ordinary capital resources loan will be disbursed following ADB's <i>Loan Disbursement Handbook</i> (2015, as amended from time to time) and detailed arrangements agreed upon between the government and ADB.		

ADB = Asian Development Bank, MUB = Municipality of Ulaanbaatar, PMO = program management office.
Source: ADB.

E. Project Readiness

18. Project 2's final feasibility study report has been submitted. The PMO is adequately staffed to start the engagement process for Project 2 consulting services. Due diligence has been

appraised, and the resettlement plan and framework, IEE, and updated environmental assessment and review framework were approved in December 2016.

IV. DUE DILIGENCE

A. Technical

19. Project 2's technical design and specifications are based on the Project 1 detailed design. They align with the MUB's plans for the targeted locations and include comparative analyses, needs assessment, and design methods that promote solutions for *ger* areas and for structured and efficient urban development. Cold climate considerations have been incorporated based on Mongolian and international standards. Heat production is based on most environmentally friendly solutions, and green building features have been incorporated in some of the project facilities.

B. Economic and Financial

20. The proposed subprojects are economically viable. The resulting base case economic internal rate of returns (EIRRs) for the project components (urban roads, water supply and sewerage, heating services, and socioeconomic facilities) range from 15.22% to 28.83%, which are higher than ADB's economic opportunity cost of capital of 12.00%. Sensitivity analysis was also undertaken to further test the economic viability of the road subprojects. The results indicate that the EIRRs are most vulnerable to delays in the subprojects' benefits, but the EIRRs are still higher than the 12.00% hurdle rate (EIRRs of 23.89% for Denjiin and 21.55% for Dambadarjaa). For the EIRRs to drop to the economic opportunity cost of capital (12.00% hurdle rate), capital costs will have to increase by 97% in Denjiin and 84% in Dambadarjaa, while benefits will require reduction of 81% in Denjiin and 70% in Dambadarjaa. For the other subprojects (water supply and sewerage, heating services, and socioeconomic facilities), the sensitivity analysis indicates that the EIRRs are higher than the 12.00% hurdle rate in all cases.

21. The subprojects are considered financially viable. The financial internal rate of return (FIRR) for the water supply and sewerage and heating services components range from 2.90% to 5.01%, which is above the real weighted average cost of capital of 2.17%.¹⁶ The sensitivity analyses also show that the FIRR is sensitive in some cases. In the Denjiin water supply and sewerage subprojects, FIRR is sensitive to a 10% increase in operation and maintenance (O&M), 10% decrease in benefits, 10% increase in capital and O&M costs with a 10% decrease in benefits, and a 1-year delay in realizing benefits. In the Dambadarjaa water supply and sewerage subprojects, the FIRR is sensitive to a 10% increase in capital and O&M costs with a 10% decrease in benefits, and a 1-year delay in the realization of benefits.

22. The affordability analysis indicates that the proposed combined tariff for water supply and sewerage services of \$0.32 per cubic meter (m³) of water consumed is within the limit that Denjiin and Dambadarjaa residents are willing to pay for improved water supply and sewerage services, which is \$0.72 per m³ of water consumed for Denjiin and \$0.79 per m³ for Dambadarjaa. The proposed combined tariff for water and sewerage of \$0.32 per m³ represents 1.3%–1.9% of the household monthly income of the two lowest income groups in Denjiin and Dambadarjaa. For heating services, the proposed tariff of \$5.6 per megawatt-hour is also deemed affordable and

¹⁶ Tariffs for water and heating have steadily increased since 2013, which has improved the cost recovery of these utilities. The wholesale water tariff increased from MNT255 per cubic meter (m³) for domestic customers in 2012–2013 to MNT420 per m³–MNT460 per m³ in 2014. A proposed 35% increase in both water and wastewater tariffs is pending the price commission's decision. The heating tariff increased from MNT341 per square meter (one of the tariff categories) in 2013 to MNT460 per square meter at current tariff level, with about a 17% increase each year during 2014–2015.

would comprise 2.0%–2.8% of the household monthly income of the two lowest income groups. Therefore, the combined tariffs for water and sewerage, and heating services represent 3.28%–4.69% of the household monthly income of the two lowest income groups. This is still affordable for low income households since the general rule is that utility expenses should not exceed 5% of the monthly income of the lowest income households.

C. Governance

23. 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 FAM. The financial management assessment (FMA) was updated for the MUB and PMO.¹⁷ The overall financial management risk before mitigating measures is rated as moderate. The FMA recommended an action plan and capacity development measures to be executed by the MUB and PMO during project preparation and implementation. It concludes that, although the implementing agency and/or PMO have financial management capacity and project management experience, a component to strengthen their capacity to implement Project 2 in line with ADB policies and procedures is still required. The MUB, which will operate and administer the imprest accounts, has sufficient experience in managing projects financed by multilateral agencies, including ADB. The project procurement risk assessment establishes that the MUB has gained procurement capacity through Tranche 1, however, additional support through consulting services is still required to ensure strict compliance with ADB policies and procedures, as well as national laws and regulations.

D. Poverty, Social, and Gender Dimensions

24. The project will benefit about 200,000 persons with improved access to water supply and sewerage, roads, heating services, kindergarten facilities, transitional housing, business incubator components, parks, and sports complexes. To ensure the benefits of project components, activities have been designed and included in the CAP, GAP, and SDAP for public awareness, education, consultation, and participation during the project; with consulting support. The CAP and SDAP were prepared to ensure consultation and participation of local communities throughout implementation. Social measures will be monitored through the PPMS, project progress reports, and ADB review missions. Social and gender indicators will be included in the PPMS, and consultant inputs will be provided for implementation and monitoring.

25. The project is categorized as effective gender mainstreaming. The project's effective gender mainstreaming measures are presented in the GAP. The GAP outlines the project's main strategies to provide access to services and opportunities, i.e., affordability to poor women-headed households, protection of women's land tenure and property rights, and equal participation of women in the decision-making activities of the *khesegs* and *khoroos*.¹⁸ The project will address these issues through improved infrastructure, expanded social facilities (including transitional housing for women victims of domestic violence), increased employment and business training, and strengthened service delivery agencies. The project's general strategy is to ensure the proposed infrastructure's design features will be gender-responsive, appropriate, and affordable to its target users. The project will also foster women's involvement and decision making to maximize the opportunity for them to shape their community's development.

¹⁷ The Tranche 1 capacity-building program supported financial management capacity strengthening. Tranche 2 will carry out further capacity-strengthening activities for the PMO and the executing agency, as indicated in the FMA action plan.

¹⁸ *Khoroo* is an administrative subdivision of Ulaanbaatar below the district level. *Kheseg*, is a subdivision of a *khoroos*, with no formal administrative role, equivalent to neighborhood.

E. Safeguards

26. **Environment.** Project 2 is classified as category B for environment. The IEE and environmental management plan (EMP) were prepared based on Project 2's detailed environmental impact assessment, per the requirements of the Mongolian Law on Environmental Impact Assessment (2012) and ADB's Safeguard Policy Statement (SPS) (2009). Public consultation meetings were held with affected households and stakeholders and identified environmental issues, concerns, and appropriate impact mitigations. The investment program's environmental assessment and review framework was updated as part of Project 1's detailed design (Appendix 9). The updated assessment and framework continues to provide guidance for screening and categorization, environmental assessment, and preparation and implementation of environmental safeguards for project subcomponents' compliance with ADB's SPS and the Mongolian Law on Environmental Impact Assessment. Potential environmental impacts, which are largely site-specific and short-term, arising from the construction of project subcomponents, are insignificant and reversible. Construction-related disturbances can be managed with standard construction practices and guidelines.¹⁹ The project's environmental management is supported by loan assurances and capacity development and institutional strengthening activities. Environmental complaints will be handled following the project's grievance redress mechanism (GRM).

27. **Resettlement.** Project 2 is category A for resettlement and category C for indigenous peoples.²⁰ A land acquisition and resettlement plan (LARP) for the four subcenters has been prepared following the legislative framework of Mongolia and ADB's SPS, and the agreed resettlement framework (Appendix 12).²¹ The LARP was approved on 12 December 2016. The estimated land acquisition and resettlement impact includes 555 entities (residential and commercial) and 2,156 persons, who will be affected by developments in the subcenters. The project will adopt a land acquisition and resettlement practice involving contractual agreements negotiated between the affected persons and the MUB's Land Administration Department on the basis of the Civil Code of Mongolia.²² The resettlement framework, applicable to all investment program subprojects, has been reviewed and updated.²³ It now reflects the MUB's recent regulation, a harmonized grievance handling system based on existing practice,²⁴ new institutional arrangements,²⁵ and other provisions derived from Project 1's updated LARPs.²⁶ No principle or entitlement in the original framework has been downgraded (Appendix 11). A GRM was established for Project 1, and a similar mechanism will be adopted for Project 2. All safeguards documents will be reviewed and concurred by ADB, disclosed to affected people and

¹⁹ These include noise, dust, soil erosion, surface water sedimentation, solid and liquid waste pollution, worker camp disturbances, reduced local access, and possible exposure to traffic, worker, and public safety risks.

²⁰ The project components focus on Ulaanbaatar's mid-ger urban areas. These areas have been in existence for more than 30 years and are very heterogeneous in terms of residents' socioeconomic status. The project investments will benefit all residents. No specific communities of ethnic minorities have been identified.

²¹ In the absence of detailed design, one LARP for the four subcenters was prepared based on the feasibility study report. During detailed design, the LARP will be updated per subproject or component. Resettlement activities will only start after the detailed design that is expected to be completed not before mid-2018.

²² Affected people will be compensated using cash, land-for-land, or relocation to existing housing units.

²³ Review and update of the resettlement framework as stipulated in the FFA, Schedule 5, para. 3.

²⁴ Based on the GRM set-up under Tranche 1 and integrating MUB's existing grievance redress practice.

²⁵ A land acquisition and resettlement committee for the Bayankhoshuu and Selbe subcenter sewer main collector pipes subprojects was established on 6 March 2015 by Resolution No. A/175 of the Mayor of MUB. With this resolution a working group for the implementation of the LARP was established as well.

²⁶ Such as (i) upgrading of entitlements for unlicensed occupant of land, i.e., from provision of "possession certificate" to provision of "ownership or possession certificate"; (ii) provision for partially affected land (less than 50%), where the remaining land is no longer viable or cannot be used for its original purpose, therefore, at the request of the affected people, the remaining land can be acquired; and (iii) provision of allowances to cover transport costs on actual cost basis at current market rates to be included in contractual agreement.

communities, and posted on ADB and MUB websites on 14 December 2016. The PMO has adequate staff and has demonstrated capacity for grievance redress, awareness creation, and social mobilization. Safeguards trainings will continue to be provided as specified in the LARP. Social safeguards monitoring and reporting to ADB will continue on a semiannual basis.

F. Risks and Mitigating Measures

28. Table 4 summarizes the major risks and mitigating measures detailed in Appendix 14.

Table 4: Summary of Risks and Mitigating Measures

Risks	Mitigating Measures
Lack of community and private sector involvement in subcenter development	Throughout implementation, community engagement and private sector involvement will be supported. The MUB, supported by the program, will facilitate, supervise, and coordinate the subcenter redevelopment process, and will guide a fair land redevelopment process. Along with an improved local urban plan, the activities will maximize benefits to residents, encouraging them not to move away.
Corruption and inefficient procurement	Reviews will assess procurement to validate reported procurement capacity and address gaps that may impede program effectiveness. Provisions of ADB's Anticorruption Policy (1998, as amended to date) are included in the investment program's loan regulations and bidding documents. The executing agency will disclose to the public and annually update the program's status and how facility proceeds are used.
Insufficient resources allocated to the operation and maintenance of socioeconomic facilities	The Government of Mongolia and the MUB will ensure the Project 2-financed facilities (community development centers, transitional house, kindergartens, sports complexes, and public parks) have adequate resources and capacity to be properly operated and maintained by relevant departments and agencies.
Delay in land acquisition and resettlement approvals and implementation	The MUB will make compensation funds for affected persons available early and will strictly comply with the resettlement plan.

ADB = Asian Development Bank, MUB = Municipality of Ulaanbaatar.

Source: ADB.

G. Risk Categorization

29. Project 2's risk category is complex because the safeguards categorization for involuntary resettlement is A.

V. ASSURANCES

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

VI. RECOMMENDATION

31. On the basis of the approval by ADB's Board of Directors for the provision of loans under the multitranches financing facility in an aggregate principal amount not exceeding \$163,700,000 to Mongolia for the Ulaanbaatar Urban Services and *Ger* Areas Development Investment Program, it is recommended that the President approve the proposed tranche as described in para. 15 and such other terms and conditions as are substantially in accordance with those set forth in the draft loan and project agreements for the proposed tranche.

DESIGN AND MONITORING FRAMEWORK FOR PROJECT 2

Impact the Project is Aligned with Improved living conditions in Ulaanbaatar (Ulaanbaatar City Master Plan [2030]) ^a			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
<p>Outcome</p> <p>A network of livable, competitive, and inclusive subcenters in Ulaanbaatar's <i>ger</i> areas</p>	<p>By 2022:</p> <p>a. % of population in Dambadarjaa and Denjiin with improved access to water, heating, and sanitation increased by 20% (2015 baseline: 0% for water, 0% for heating, and 0% for sanitation)</p> <p>b. Average density increased in Dambadarjaa to 200 persons per ha and in Denjiin to 180 persons per ha (2015 average baseline: 104 [Dambadarjaa] and 94 [Denjiin] persons per ha)</p> <p>c. Number of business establishments in Dambadarjaa and Denjiin increased by 10% (2015 baseline: 1,845)</p>	<p>a–c. MUB report on urban construction and district records</p>	<p>Insufficient time and resources devoted to community mobilization</p> <p>Lack of private sector participation in the redevelopment approaches</p>
<p>Outputs</p> <p>1. Roads and urban services expanded</p>	<p>By 2021:</p> <p>1a. 24.1 km of water supply network and 25.8 km of wastewater network constructed (2015 baseline: 5.7 km of water supply network and 3.0 km of wastewater network)</p> <p>1b. 3 heating facilities with 112.5 MW capacity and 6.0 km of heating network pipes constructed (2015 baseline: 18 heating facilities with 7.0 MW)</p> <p>1c. 7.08 km of priority roads including street lighting, 3 bridges, and sidewalks constructed (2015 baseline: 3.9 km of paved road and 2 bridges)</p> <p>1d. 6.1 km of water supply main and 7.2 km of sewage main rehabilitated and expanded (2015 baseline: 2.9 km of water supply main and 4.2 km of sewerage main)</p> <p>1e. 25 cameras installed and operating in Dambadarjaa and Denjiin subcenters to promote safety for women and girls in</p>	<p>1a–1e. PMO progress and completion reports</p>	<p>Rising global prices of energy and construction materials significantly increase the project's investment and O&M costs</p>

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
	public spaces (2015 baseline: 0)		
2. Economic and public services in targeted areas improved	<p>By 2021:</p> <p>2a. Four kindergarten classrooms with 6,200 m² of floor area and capacity for 400 students constructed (using green building design) in Bayankhoshuu, Dambadarjaa, Denjiin, and Selbe subcenters (sex-disaggregated) (2015 baseline: 10,500 m² with capacity for 1,000 students)</p> <p>2b. Two community development and service centers constructed in Dambadarjaa and Denjiin with 6,000 m² of floor area (2015 baseline: 0)</p> <p>2c. Two urban parks constructed in Banyankhoshuu and Denjiin with 23,770 m² (2015 baseline: 0)</p> <p>2d. Two sports complexes constructed in Bayankhoshuu and Dambadarjaa with 12,000 m² of floor area (2015 baseline: 0)</p>	2a–2d. PMO progress and completion reports and district records	<p>Insufficient resources allocated to the O&M of socioeconomic facilities</p> <p>Lack of demand for commercial facilities built</p>
<p>3. Institutional capacity for program management and urban development strengthened</p> <p>3.1 Project management and implementation support</p> <p>3.2 Detailed design, construction supervision, and engineering services inputs on Project 3 feasibility study</p> <p>3.3. Subcenter planning and development, community participation, SME</p>	<p>By 2017:</p> <p>3.1a. PMO fully functioning with trained staff, at least 50% of whom are women (2015 baseline: 14 staff)</p> <p>By 2018:</p> <p>3.1b. Sex-disaggregated data collected for all activities through project performance management system (2015 baseline: 0)</p> <p>By 2018:</p> <p>3.2a. Project 2 detailed design completed (2015 baseline: not applicable)</p> <p>By 2018:</p> <p>3.3a. Tranche 3 feasibility study completed (2015 baseline: not applicable)</p>	<p>3.1a–3.1b. PMO progress and completion reports</p> <p>3.2a. PMO progress and completion reports</p> <p>3.3a. PMO progress and completion reports</p>	<p>Inadequate project resources allotted to support the policy and institutional reforms</p> <p>Lack of incentives to attract private sector participation</p> <p>Failure to appoint and retain well-qualified and experienced consultants</p>

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
development in Dambadarjaa and Denjiin, and completion of Project 3 feasibility study	By 2019: 3.3b. Dambadarjaa and Denjiin plans and redevelopment processes prepared and endorsed by all stakeholders, through community consultation with at least 50% female participants (2015 baseline: 0) 3.3c. CDCs and SDCs in Dambadarjaa and Denjiin fully functioning, with at least 40% female participation (2015 baseline: 0)	3.3b–3.3c. MUB and district reports	
Key Activities with Milestones 1. Roads and urban services expanded 1.1 Detailed design of water and sewerage improvements completed by November 2018 1.2 Detailed design of heating improvements completed by November 2018 1.3 Detailed design of roads and other infrastructure completed by November 2018 1.4 Urban infrastructure constructed, commissioned, and made operational in phases between April 2019 and 2021 1.5 Implementation of LARP completed prior to construction activities 1.6 EMP, GAP, and SDAP implemented 2. Economic and public services in targeted areas improved 2.1 Detailed design of kindergarten and business incubators/vocational training centers completed by November 2018 2.2 Facilities constructed, commissioned, and made operational in phases between September 2018 and 2021 2.3 Implementation of LARP completed prior to construction activities 2.4 EMP, GAP, and SDAP implemented 3. Institutional capacity for program management and urban development strengthened 3.1 PMO fully staffed by November 2017 3.2 Hiring of capacity development consultants completed by November 2017 3.3 Subcenter planning and development guidelines and regulations in place by June 2019 3.4 CDCs and SDCs established in target areas by June 2018 3.5 Support to financial strengthening provided and regulatory and institutional framework improved by March 2019 3.6 Tranche 3 prepared by 2018			
Inputs for Tranche 2 ADB: \$66.35 million (loan) Government: \$35.15 million			
Assumptions for Partner Financing European Investment Bank: \$19.64 million (loan)			

ADB = Asian Development Bank, CDC = community development council, EMP = environmental management plan, GAP = gender action plan, ha = hectare, km = kilometer, LARP = land acquisition and resettlement plan, m² = square meter, MUB = Municipality of Ulaanbaatar, MW = megawatt, O&M = operation and maintenance, PMO = program management office, SDAP = social development action plan, SDC = small- and medium-enterprise development council, SME = small- and medium-sized enterprise.

^a State Great Hural (Parliament) of Mongolia. February 2013. *Adjustments to the Ulaanbaatar City Urban Development Master Plan 2020 and Development Directions 2030*. Ulaanbaatar.

Source: ADB.

Facility Administration Manual

Project Number: 45007

Loans and Grant Number(s): {LXXXX; GXXXX }

March 2017

Mongolia: Ulaanbaatar Urban Services and *Ger*
Areas Development Investment Program

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
CDC	–	community development council
EIB	–	European Investment Bank
EIRR	–	economic internal rate of return
EMP	–	environmental management plan
FAM	–	facility administration manual
FFA	–	financing framework agreement
FIRR	–	financial internal rate of return
FMA	–	financial management assessment
GAP	–	gender action plan
GRM	–	grievance redress mechanism
ICB	–	international competitive bidding
IEE	–	initial environmental examination
km	–	kilometer
LARP	–	land acquisition and resettlement plan
m ³	–	cubic meter
MFF	–	multitranche financing facility
MUB	–	Municipality of Ulaanbaatar
NCB	–	national competitive bidding
O&M	–	operation and maintenance
OCR	–	ordinary capital resources
PMO	–	program management office
SDAP	–	social development action plan
SDC	–	small- and medium-sized enterprise development council
SME	–	small- and medium-sized enterprise
USUG	–	Ulaanbaatar Water Supply and Sewerage Authority

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ANNEX 1: PROJECT PROCUREMENT RISK ASSESSMENT

Facility Administration Manual Purpose and Process

The facility administration manual (FAM) describes the essential administrative and management requirements to implement the project on time, within budget, and in accordance with the policies and procedures of the government and Asian Development Bank (ADB). The FAM should include references to all available templates and instructions either through linkages to relevant URLs or directly incorporated in the FAM.

The Municipality of Ulaanbaatar is wholly responsible for the implementation of ADB-financed projects, as agreed jointly between the borrower and ADB, and in accordance with the policies and procedures of the government and ADB. ADB staff is responsible for supporting implementation including compliance by the Municipality of Ulaanbaatar of their obligations and responsibilities for project implementation in accordance with ADB's policies and procedures.

At loan negotiations, the borrower and ADB shall agree to the FAM and ensure consistency with the legal agreements. Such agreement shall be reflected in the minutes of the loan negotiations. In the event of any discrepancy or contradiction between the FAM and the legal agreements, the provisions of the legal agreements shall prevail.

After ADB Board approval of the project's report and recommendations of the President (RRP), changes in implementation arrangements are subject to agreement and approval pursuant to relevant government and ADB administrative procedures (including the Project Administration Instructions) and upon such approval, they will be subsequently incorporated in the FAM.

I. INVESTMENT PROGRAM DESCRIPTION

A. Rationale

1. In 2015, Ulaanbaatar had a population of 1.4 million. Since the 1990s, it has had limited formal extension of its core, which largely comprises apartment blocks with comprehensive utility services, including dedicated heating, water, and sanitation. However, successive waves of in-migration with *ger* tents have reshaped the city's geography, with (i) little upgrading or extension of basic urban services; and (ii) government policy, since 2003, to give each citizen about 700 square meters of land.¹ A vast low-density peri-urban area, named *ger* areas, now extends around the city core, characterized by unplanned settlement of low- and medium-income households with land ownership,² unserviced plots, unpaved roads, and poor facilities. The *ger* area population is estimated at 840,000, representing 60% of Ulaanbaatar or 30% of the country population. Despite their size, *ger* areas have until recently been considered temporary settlements. However, their official integration in the 2013 city master plan provides the necessary provision to plan the redevelopment of a formal peri-urban area.

2. 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 systems³ and unpaved roads. Access to water, supplied by kiosks operated by the Ulaanbaatar Water Supply and Sewerage Authority (USUG), is limited.⁴ In 2011, most of the 40,000 people migrating to Ulaanbaatar settled in *ger* areas; by 2022 the city's population is estimated to grow by 400,000 from in-migration and natural growth. Under current situation, the forecasted population increases is a serious threat to the city environment and the health of the population if the situation is not improved.

3. Lack of long-term planning, infrastructure investment, and land use regulation in *ger* areas have resulted in haphazard development, limited availability of space for public facilities, poor access to socioeconomic services, reduced livelihood opportunities, and insecure neighborhoods. The lack of basic urban infrastructure is preventing rational and dynamic urban development, increasing the costs of doing business and of accessing services. The city core where jobs and services are concentrated now has unprecedented congestion. The service gap between the city core and *ger* areas means *ger* residents are poorly integrated in the urban economy; it is one of the most urgent and difficult development challenges. While various government and development partner initiatives have significantly improved living conditions in *ger* areas, approaches have generally focused on specific sectors, failing to design a sustainable vision and provide integrated solutions for the problems of peri-urban development.

4. **Subcenter upgrading.** High construction cost,⁵ lack of urban planning, and inadequate infrastructure constrain the upgrading of *ger* areas. These areas are predominately residential with pockets of activity nodes, called subcenters, providing commercial and administrative services. The influence area of a subcenter varies from 30,000 to 100,000 people. Despite the

¹ Large-scale in-migration, started in 1991 during the economic transition, has been exacerbated by recent severe winters (*dzud*). During 2000–2010, the population of *ger* areas increased by about 400,000.

² Most *ger* residents have two types of land ownership: right of possession or right of use. Rights of possession are gradually converted into rights of ownership subject to an administrative procedure and a small fee.

³ Most households rely on unimproved individual coal stoves.

⁴ Water consumption in *ger* areas is low at about 10 liters per capita per day (half the recommended minimum by the World Health Organization in similar context). Residents pay 2–10 times more than non-*ger* area residents.

⁵ Partly due to cold climate conditions and outdated construction standards.

critical function of subcenters in overall spatial and local development, urban services have not been substantially improved. The lack of basic infrastructure limits economic growth and increases negative environmental impacts.

5. The program approach aims to initiate a redevelopment process in *ger* areas. Improving infrastructure within the *ger* area subcenters and connectivity with the city core center is critical for inclusiveness and important to facilitate the movement of people and goods, develop urban corridors, and create clusters of subcenters. Better urban planning combined with a network of infrastructure along priority roads will initiate a structural change of subcenter urban fabric. This will (i) improve residents' access to basic urban services, public space, and socioeconomic facilities; (ii) support local economic development; (iii) allow residents and businesses to take advantage of urban economies; and (iv) provide better housing options.⁶ The changes in land use and higher urban density will improve water, sanitation, and heating services delivery.

6. **Road map.** Based on government and Municipality of Ulaanbaatar (MUB) priorities to redevelop *ger* areas, the road map for the program will support the MUB in establishing a network of well-developed subcenters to provide jobs, housing, and economic opportunities with reduced soil and air pollution. It comprises sequenced investments, municipal reforms, and capacity building (policy, planning, and monitoring), with four strategic objectives: (i) expand roads and basic urban services (water, sewerage, and heating) within subcenters and improve connectivity to initiate land use transformation; (ii) increase economic and public services through investments in socioeconomic facilities to meet population needs, increase urban functions, and encourage job creation; (iii) increase service provider efficiency by improving water supply, sewerage, and heating service operations; and (iv) strengthen institutions and capacity by improving urban planning and subcenter development, community awareness, participation and empowerment, service provider operations and management, and program implementation capacity.

7. **Strategic context and sector policy.** In February 2013, the Mongolia Parliament approved the Adjustments to the Ulaanbaatar City Urban Development Master Plan 2020 and Development Directions 2030. The master plan produced two important outcomes: (i) integration of *ger* area development into the city master plan, and (ii) acknowledgement of the value and function of *ger* area subcenters as key elements of future city growth.⁷ The MUB has developed the *Ger* Area Development Program and established a *Ger* Area Development Agency, supervised by the vice mayor in charge of urban development and investment. On 30 May 2013, the city council resolution No.10/38 endorsed the program, subcenter locations under Project 1, and coordination of the investment program with the city master plan. The MUB proposed a special purpose development vehicle (subcenter redevelopment authority) to facilitate, supervise, and coordinate the redevelopment process of the selected subcenters. In addition, the Ministry of Economic Development's Street Project improved the road conditions in Ulaanbaatar and included a *ger* area component. The National Development Strategy and the New Reconstruction Midterm Program (2008–2016) constitute the national framework for program implementation. The program is consistent with the Asian Development Bank's (ADB) interim country partnership strategy, 2014–2016 for Mongolia; ADB's Strategy 2020 priorities,

⁶ Up to 60% of subcenter households may consider exchanging their land for fully serviced apartment units.

⁷ ADB has helped the MUB introduce a redevelopment strategy for *ger* areas through a policy and advisory technical assistance (ADB. 2010. *Technical Assistance to Mongolia for Ulaanbaatar Water and Sanitation Services and Planning Improvement*. Manila [TA 7591-MON]); and the project preparatory technical assistance (ADB. 2011. *Technical Assistance to Mongolia for Ulaanbaatar Urban Services and Ger Areas Development Investment Program*. Manila [TA 7970-MON]).

including environmental sustainability and private sector development; as well as the core themes of green, competitive, and inclusive cities of ADB's Urban Operational Plan.⁸

8. Policy dialogue and capacity development. To supplement the strong policy framework, policy dialogue and capacity development will focus (i) in communities, on community participation, awareness, and empowerment,⁹ including design and implementation of the social and gender action plan; and establishment of community development councils (CDCs) and small- and medium-sized enterprise (SME) development councils (SDCs); (ii) in subcenters, on subcenter upgrading, including technical guidance for preparing and implementing local development plans, urban zoning regulation and construction standards, and a development framework with a transparent mechanism to regulate land redevelopment ensuring current residents are integrated in the redevelopment plan; and (iii) in the city, on the master plan through ongoing ADB technical assistance to strengthen urban planning capacity.¹⁰ Capacity development for water and wastewater utilities will target (i) improving the MUB and USUG management contract, (ii) defining a clearer tariff road map, and (iii) providing technical support to the Water and Sewerage Regulatory Commission. For heating, the focus will be to ensure financial sustainability and capacity of new and existing heating facilities operators in the selected subcenters and to strengthen provisions in management contracts.

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

10. Development coordination. During program preparation, ADB coordinated closely with development partners involved in Ulaanbaatar's urban sector. Three ADB-financed projects directly supported the program: (i) a bus rapid transit line from the city center to Selbe subcenter;¹¹ (ii) support for housing and micro-, small-, and medium-sized enterprise financing in *ger* areas targeted by the program;¹² and (iii) capacity development technical assistance to strengthen MUB urban planning capacity (footnote 10).

B. Impact and Outcome

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.

⁸ ADB. 2014. *Interim Country Partnership Strategy: Mongolia, 2014–2016*. Manila; ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–2020*. Manila; ADB. 2013. *Urban Operational Plan, 2012–2020*. Manila.

⁹ The consultative and participatory approach to *ger* area redevelopment, introduced by the United Nations Human Settlements Programme (UN-Habitat) during program preparation, was carried out for the project 1 subcenters.

¹⁰ ADB. 2013. *Technical Assistance to Mongolia for Ulaanbaatar Urban Planning Improvement*. Manila (TA 8467-MON). The TA was financed by the Japan Fund for Poverty Reduction.

¹¹ ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Multitranche Financing Facility to Mongolia for the Urban Transport Development Investment Program*. Manila (MFF 0070-MON). Implementation of the MFF is independent of and will not affect the implementation of the *ger* area program.

¹² TenGer Financial Group lent a portion of an ADB private sector loan to XacBank. About \$6 million–\$10 million was made available for the targeted areas. ADB. 2013. *Report and Recommendation of the President to the Board of Directors: Proposed Senior Loans for XacBank and TenGer Financial Group for Supporting Micro, Small, Medium-Sized Enterprises and Leasing Finance in Mongolia*. Manila.

C. Outputs

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 improved; (iii) service providers become more efficient; and (iv) institutions and capacity for urban development, program management, and service delivery are strengthened. The program will be implemented over three tranches.

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

14. **Project 2.** The second tranche will (i) extend the urban infrastructure upgrading and spatial restructuring to two additional subcenters in the northern *ger* areas (Dambadarjaa and Denjiin) and provide additional investments in Bayankhoshuu and Selbe subcenters,¹³ (ii) support the delivery of socioeconomic facilities, and (iii) further improve institutional strengthening and capacity building.¹⁴

15. **Roads and urban services** will be expanded within priority subcenters, and connectivity between them will be improved through the construction of (i) 7.08 kilometers (km) of priority roads in the subcenters (with street lighting, three bridges, and sidewalks); (ii) 200 meters of flood channels and 7.4 km of drainage; (iii) 13.2 km of electricity cable overhead lines and a 7.1 km cable duct for a telecommunications network; (iv) 24.1 km of water supply pipes, 25.8 km of wastewater pipes, and 6.0 km of district heating pipes and associated equipment; and (v) three heating facilities for a capacity of 112.5 megawatts; as well as through the rehabilitation and expansion of (vi) 6.1 km of a water supply main and 7.2 km of a sewage main.

16. **Economic and public services** in targeted areas will be improved through the construction of (i) four kindergartens in Bayankhoshuu, Dambadarjaa, Denjiin, and Selbe using green building design; (ii) two community development and service centers in Dambadarjaa and Denjiin; (iii) two sports complexes in Bayankhoshuu and Dambadarjaa; and (iv) two urban parks in Bayankhoshuu and Denjiin.

17. **Institutional capacity** for program management and urban development will be strengthened through consulting services for (i) detailed design, construction supervision, and engineering inputs for the Project 3 feasibility study and (ii) project management and

¹³ Tranche 2 targeted areas have been selected because they are compliant with 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 potentials; (vi) alignment with the city master plan; and (vii) potential synergies with Tranche 1 investments.

¹⁴ Tranche 2 does not have provision for activities that justify mentioning the overall program output on service provider efficiency, even though this output remains valid under Tranche 1 implementation.

implementation support for Project 2, urban planning and subcenter development, community participation and SME development, and completion of the Project 3 feasibility study.

18. **Project 3.** The third tranche will (i) expand coverage of similar investments in project 1 and 2 subcenters, and in other subcenters in the northern and eastern *ger* areas; and (ii) improve road connections between targeted subcenters. Ulyastai and Amgalan subcenters are tentatively targeted for Project 3. Other subcenters may be considered.

II. IMPLEMENTATION PLANS

A. Project Readiness Activities

Table 1: Project Readiness Activities for Tranche 1

Indicative Activities	2013				2014				Responsible Agency		
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr		May	Jun
Advance contracting actions											MUB, ADB
Retroactive financing actions											MUB, ADB
Establish project implementation arrangements											MUB, ADB
ADB Board approval											ADB
Loan signing											MED, MUB, ADB
Government legal opinion provided											MED, MOJ
Government budget inclusion											MOF
Loan effectiveness											MOF, MUB

ADB = Asian Development Bank, MED = Ministry of Economic Development, MOF = Ministry of Finance, MOJ = Ministry of Justice, MUB = Municipality of Ulaanbaatar.
Source: ADB.

Table 2: Project Readiness Activities for Tranche 2

Indicative Activities	2017									Responsible Agency
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	
Advance contracting actions										MUB, ADB
Strengthen project implementation arrangements										MUB, ADB
ADB President approval										ADB
Loan signing										MOF, MUB, ADB
Government legal opinion provided										MOF, MOJ
Government budget inclusion										MOF
Loan effectiveness										MOF, MUB

ADB = Asian Development Bank, MOF = Ministry of Finance, MOJ = Ministry of Justice, MUB = Municipality of Ulaanbaatar.
Source: ADB.

Tasks	2012		2013				2014				2015				2016				2017				2018				2019				2020				2021					
	Q1	Q2	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
1.2 Detailed design of heating improvements completed by November 2018																																								
1.3 Detailed design of roads/other infrastructure completed by November 2018																																								
1.4 Urban infrastructure constructed, commissioned, and made operational in phases between April 2019 and 2021																																								
1.5 Implementation of LARP completed prior to construction activities																																								
1.6 Implementation of EMP, GAP, and SDAP																																								
2.1 Detailed design of Socioeconomic facilities completed by November 2018																																								
2.2 Facilities constructed, commissioned, and made operational in phases between September 2018 and 2021																																								
2.3 Implementation of LARP completed prior to construction activities																																								
2.4 Implementation of EMP, GAP, and SDAP																																								
3.1 PMO fully staffed by November 2017																																								
3.2 Hiring of capacity development consultants by November 2017																																								
3.3 Subcenter planning and development guidelines/regulations in place by June 2019																																								
3.4 CDCs and SDCs established in target areas by June 2018																																								
3.5 Support to financial strengthening and improved regulatory and																																								

Tasks	2012		2013				2014				2015				2016				2017				2018				2019				2020				2021				
	Q1	Q2	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
institutional framework by March 2019																																							
3.6 Tranche 3 is prepared by 2018																																							

CDCs = community development councils, EMP = environmental management plan, GAP = gender action plan, LARP = land acquisition and resettlement plan, PMO = program management office, Q = quarter, SDCs = small- and medium-sized enterprise development councils, SDAP = social development action plan.

Source: Asian Development Bank.

III. PROGRAM MANAGEMENT ARRANGEMENTS

A. Program Implementation Organizations: Roles and Responsibilities

Program Implementation Organizations	Management Roles and Responsibilities
Asian Development Bank (ADB)	<ul style="list-style-type: none"> – Oversees the implementation, including compliance by executing and implementing agencies of their obligations and responsibilities for project implementation in accordance with ADB's policies and procedures
The Government	<p>The Borrower's representative</p> <ul style="list-style-type: none"> – ensures that the Municipality of Ulaanbaatar (MUB) provides timely counterpart funding; – screens and approves withdrawal applications; – will establish five imprest accounts (for loans and grant funds, respectively) in a commercial bank acceptable to ADB; – ensures annual audit of the project accounts; and – negotiates project and loan agreements.
Program Steering Committee	<ul style="list-style-type: none"> – Chaired by the Mayor of Ulaanbaatar – Comprises representatives from the Ministry of Finance (MOF), Ministry of Construction and Urban Development, Ministry of Labor, Ministry of Education, Ministry of Environment and Green Development and Tourism, and other concerned agencies, as needed – Oversees progress of the investment program – Provides strategic guidance on program implementation – Meets at least once every 6 months until program completion
Executing Agency–MUB	<ul style="list-style-type: none"> – Responsible for program oversight and administration – Sets up multimodal coordination committee and follow up the action plan – Oversees implementation of investment program road maps – Submits progress reports to the steering committee for decision making purposes – Prepares subsequent tranches – Be accountable and responsible for proper use of advances to the imprest accounts – Endorses withdrawal applications – Ensures compliance with project covenants – Holds quarterly meetings with the program management office – Monitors cooperation among related official development assistance (ODA)-funded projects
Implementing Agency – Project and cooperation Unit under MUB	<ul style="list-style-type: none"> – Reports directly to the Ulaanbaatar Deputy-Governor in charge of infrastructure and <i>ger</i> areas development – Provides guidance to the program management office (PMO) and oversee the PMO's implementation of the program, – Works with the PMO and consultants to accurately define the technical specifications and designs – Monitors project activities and outputs and reporting to the program steering committee – Prepares reports reflecting issues and time-bound actions taken (or to be taken) – Ensures project's sustainability during post implementation stage and reporting to ADB on the assessed development impacts – Ensures that the PMO posts relevant financial and project related reports to the MOF's ODA Management Information System – Monitors cooperation among related ODA-funded project
PMO and Procurement Committee	<ul style="list-style-type: none"> – Responsible for program implementation and management including finance and administration, technical and procurement matters, monitoring and evaluation, and safeguards compliance – Establishes and maintain program performance management system – Manages detailed surveys, site investigations, and engineering designs for all subcomponents – Prepares, updates, and submits resettlement plans and updated environmental management plan for ADB approval prior to award of contracts and implements all necessary documents related to land acquisition and resettlement, environmental, and other social safeguards – Secures technical and environmental expertise for all civil works prior to bidding

Program Implementation Organizations	Management Roles and Responsibilities
	<ul style="list-style-type: none"> - Assists the MUB in procurement and management of works, goods supply, and consulting services contracts (with support from relevant municipal bodies) - Ensures monitoring and quality control of construction works with necessary safety measures - Coordinates with ADB on matters related to disbursements, including preparation of withdrawal/replenishment applications for endorsement by the MUB and the Ministry of Finance, and retaining of supporting documents - Submits progress reports and audit reports to ADB and the MUB on time - Maintains the program imprest accounts - Submits the withdrawal application to ADB, collect and keep supporting documents, submit reporting requirements, including the annual report and financial statements - Ensures quality assurance of works, and services of consultants and counterpart staff - Prepares regular periodic progress reports and project completion report, and their timely submission to the executing agency and ADB - Posts relevant financial and project related reports to the MOF's ODA Management Information System

B. Key Persons Involved in Implementation

Executing Agency

Municipality of Ulaanbaatar

Mr. S. Batbold

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Mr. Arnaud Heckmann

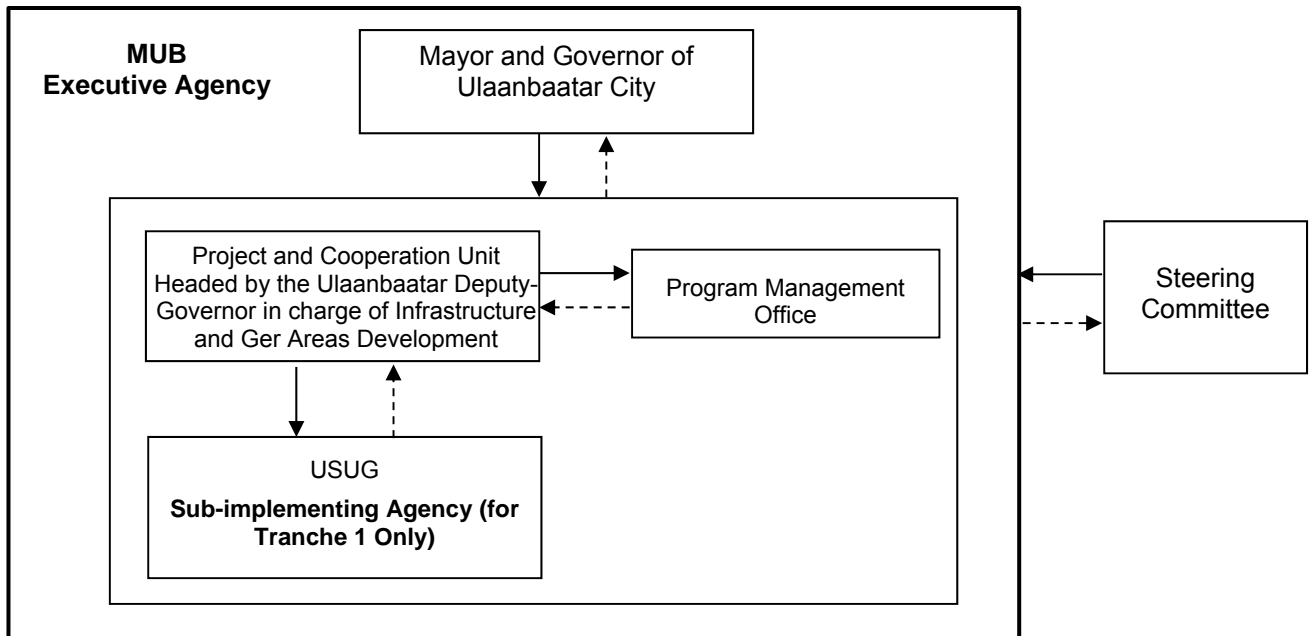
Senior Urban Development Specialist

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C. Updated Program Organization Structure



————> = Instruct / Provide guidance to

- - - -> = Report to

MUB = Municipality of Ulaanbaatar, USUG = Ulaanbaatar Water Supply and Sewerage Authority.

Source: Asian Development Bank.

IV. COSTS AND FINANCING

19. The MFF will consist of three tranches to be implemented for a period of up to 9 years, subject to the government's submission of related periodic financing requests, execution of the related loan and project agreements for each tranche, and fulfillment of terms and conditions and undertakings set forth in the framework financing agreement. The government will make the proceeds of each tranche available to the MUB, the executing agency of the program, for purposes of financing projects under the MFF.

20. Table 1 shows the financing plan for the investment program with a total estimated cost of \$320.0 million equivalent. The government has requested ADB for an MFF in an amount up to \$163.70 million equivalent or 51.2% of the investment program from a blend of ADB's Special Funds resources (Asian Development Fund [ADF]), ordinary capital resources (OCR), concessional OCR lending, and cofinancing administered by ADB. It is expected that the MUB will finance the remaining cost of about \$96 million equivalent or 30% of the total cost, including taxes and duties, resettlement, and other miscellaneous costs. The total cost of Tranche 1 is \$104.52 million, while Tranche 2 is estimated to cost \$121.14 million. All costs are inclusive of physical and price contingencies, interest, taxes and duties, and other charges.

Table 1: Summary Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Investment Program		
Asian Development Bank MFF	163.70	51.16
Municipality of Ulaanbaatar	96.00	30.00
Cofinancing ^a	60.30	18.84
Total investment program	320.00	100.00
Tranche 1		
Asian Development Bank		
ADF loan	22.50	21.53
OCR loan	27.50	26.31
UEIF-UFPF	3.70	3.54
Subtotal	53.70	51.38
Municipality of Ulaanbaatar	22.44	21.47
Cofinancing	28.38	27.15
Total tranche 1	104.52	100.00
Tranche 2		
Asian Development Bank		
Concessional OCR loan	29.24	24.14
OCR loan	37.11	30.63
Subtotal	66.35	54.77
Municipality of Ulaanbaatar	35.15	29.02
Cofinancing	19.64	16.21
Total tranche 2	121.14	100.00

ADF = Asian Development Fund, MFF = multitranche financing facility, OCR = ordinary capital resources, UEIF-UFPF = Urban Environmental Infrastructure Fund under the Urban Financing Partnership Fund.

^a The European Investment Bank has expressed interest in providing parallel collaborative cofinancing (not administered by ADB) for water supply and sanitation of up to \$60.30 million equivalent for the MFF. If this cofinancing does not materialize as planned, the Government of Mongolia will undertake necessary measures to substitute for the shortfall with suitable funding.

Source: Asian Development Bank estimates.

21. The allocation of ADF, OCR, and concessional OCR financing within the MFF is tentative. It is understood that provision of any additional concessional OCR financing will be accompanied by a corresponding reduction in the available OCR financing, and vice versa, so that in any event the total financing provided by ADB will not exceed the MFF amount. Any concessional resource allocation will be subject to (i) the general availability of concessional

resources from time to time, (ii) Mongolia’s access to such resources pursuant to ADB’s then applicable graduation policy, and (iii) availability of such resources to Mongolia pursuant to ADB’s then applicable policy on performance-based allocation on concessional resources. In addition, development partners have indicated a preliminary interest in complementing ADB’s financing after the Board’s approval of the proposed MFF through cofinancing. The amounts of cofinancing to be provided by such development partners will be deducted from the total MFF amount. Such cofinancing may be provided as loans or grants, and may take the form of parallel or joint cofinancing. ADB’s administration of such cofinancing from time to time will be reported to the Board for information annually. If additional financing is needed because the funding requirements of the MUB exceeded the original MFF allocation, a request for additional financing will be submitted to and will require ADB Board approval.

22. Under the investment program, ADF and concessional OCR loans and will be used to finance (i) civil works including equipment and detailed engineering design and supervision, (ii) program management support, (iii) consulting services, (iv) a proportionate share of the contingencies, (v) financing charges during implementation, and (vi) associated bank charges, transportation, and insurance costs. The OCR loan will finance (i) civil works including equipment, (ii) a corresponding share of the contingencies, and (iii) financing changes during implementation, and (iv) associated bank charges, transportation and insurance costs. The ADB grant will finance civil works and all associated costs including bank charges, transportation and insurance costs to be incurred by the Ulaanbaatar Water Supply and Sewerage Authority (USUG) under the program. The EIB loan will finance civil works and equipment specific to water supply and sewerage improvements including contingencies and financing charges during implementation. The counterpart funds from the MUB will finance (i) land acquisition, (ii) civil works, (iii) resettlement support, (iv) taxes and duties, and (v) a share of the financing charges during implementation.

23. For Tranche 1, ADB financed \$53.70 million or 51.3% of the total investment requirement. About 21.5% or \$22.5 million equivalent was financed from ADF; \$27.5 million or 26.3% from OCR; and \$3.7 million as a grant from the Urban Environmental Infrastructure Fund under the Urban Financing Partnership Facility. The ADF loan for \$22.5 million equivalent has a 25-year term, including a grace period of 5 years, a 2.0% annual interest rate, and repayments in equal amortization. The OCR loan for \$27.5 million has a 20-year term including a grace period of 5 years, an interest rate determined in accordance with ADB’s London interbank offered rate-based lending facility, a commitment charge of 0.15% per year; and such other terms and conditions to be set forth in the relevant loan agreements. The EIB loan has a 20-year term including a grace period of 5 years and an interest rate in accordance with its London interbank offered rate-based lending facility. For Project 1, the portion of EIB cofinancing is limited to water supply and sanitation. A summary investment plan, including cost estimates by outputs for Tranche 1 and adjustments to the cost estimates for the investment program, are presented in Table 2.

Table 2: Summary Investment Plan
(\$ million)

Item	Investment Program (Revised)	Tranche 1
A. Base Cost^a		
1. Expanded roads and urban services		
1.1 Roads improvement	67.99	24.59
1.2 Water supply and sewerage systems improvement	58.21	25.70
1.4 Heating services expansion	103.35	30.14
Subtotal (1)	229.55	80.43

Item	Investment Program	
	(Revised)	Tranche 1
2. More efficient service providers	5.24	3.70
3. Increased economic and public services	33.68	5.00
4. Institutional strengthening and capacity development	11.76	4.00
Subtotal (A)	280.23	93.13
B. Contingencies^b	24.27	7.40
C. Financing Charges During Implementation^c	15.50	4.00
Total	320.00	104.52

Note: Numbers may not sum precisely because of rounding.

^a In mid-2013 prices. Includes value-added tax and import duties estimated at \$16.7 million for the investment program and \$6.18 million for Project 1. The government will finance these taxes and duties through tax exemptions.

^b Physical contingencies computed at 5% of civil works and consulting services. Price contingencies calculated at rates ranging from 3 to 8% for local currency costs and from 0.5% to 2.2% for foreign exchange costs; includes provision for exchange rate fluctuations under a purchasing power parity exchange rate.

^c Includes interest and commitment charges. Financing charges during implementation of the Asian Development Bank (ADB) loans are computed at (i) 2.0% per annum of the first tranche's loan from ADB's Special Funds resources (Asian Development Fund); and (ii) at the 5-year US dollar fixed swap rate plus an effective contractual spread of 0.4%; and a commitment charge of 0.15% on the undisbursed portion of the first tranche's loan from ADB's ordinary capital resources. Financing charges during implementation for the European Investment Bank loan were calculated based on the 5-year USD fixed swap rate.

Source: Asian Development Bank estimates.

A. Cost Estimates Preparation and Revisions

24. The costs are estimated by the consultant in charge of the feasibility studies for the tranches/projects. Estimated costs are reviewed by PMO engineers (for subsequent tranches/projects), Master Plan Agency and various related departments of the MUB, and the ADB project team. Subsequent projects costs will benefit from the detailed design, detailed cost estimates, and bill of quantities formulated by previous projects. Feasibility studies costs are revised during preliminary design and detailed design formulation, which are further reviewed by PMO engineers, Master Plan Agency, State Expertise, and various related departments of the MUB, and the ADB project team. The cost estimates may be updated prior to approval and during the implementation of the project.

B. Key Assumptions

25. The following key assumptions underpin the cost estimates and financing plan for Tranche 2:

- A. Exchange rate: MNT2,000 = \$1.00 (as of 20 January 2016).
- B. Price contingencies based on expected cumulative inflation over the implementation period are as follows:

Table 3: Escalation Rates for Price Contingency Calculation

Item	2016	2017	2018	2019	2020	Average
Foreign rate of price inflation	1.50%	1.40%	1.50%	1.50%	1.50%	1.48%
Domestic rate of price inflation	7.60%	7.00%	7.00%	7.00%	7.00%	7.12%

Sources: Asian Development Bank estimates.

26. For Tranche 2, the total investment cost is \$121.14 million. ADB will finance \$66.35 million or 54.77% of the investment requirement. About 24.14%, or \$29.24 million equivalent, will be financed from concessional OCR; and about 30.63%, or \$37.11 million, will

be financed from OCR. The concessional OCR will have a 25-year term, including a grace period of 5 years, a 2.0% annual interest rate, and repayments in equal amortization. The OCR loan will have a 25-year term including a grace period of 5 years, an interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility, a maturity premium of 0.1%, a commitment charge of 0.15% per year, and such other terms and conditions to be set forth in the relevant loan agreements. The investment plan for Tranche 2 is shown in Table 4.

Table 4: Tranche 2 Investment Plan
(\$ million)

Item	Amount ^a
A. Base Cost^b	
1. Expanded roads and urban services	
1.1 Roads improvement	30.69
1.2 Water supply, wastewater, and drainage services	16.74
1.3 Heating services	32.90
Subtotal (1.1+1.2+1.3)	80.33
2. Improved economic and public services	18.84
3. Institutional strengthening and capacity development	4.29
Subtotal (A)	103.46
B. Contingencies^c	11.06
C. Financing Charges During Implementation^d	6.62
Total (A+B+C)	121.14

^a Includes value-added tax and import duties estimated at \$8.28 million for Tranche 2. The government will finance these taxes and duties through tax exemptions. The Asian Development Bank (ADB) may also finance taxes and duties, particularly for recurrent costs, based on the following principles: (i) the amount is within reasonable country thresholds, (ii) the amount will not represent an excessive share of the project investment plan, (iii) the taxes and duties apply only to ADB-financed expenditures, and (iv) the financing of the taxes and duties is material and relevant to the project's success.

^b In mid-2016 prices.

^c Physical contingencies are computed at 5% of civil works, goods, and consulting services. Price contingencies are computed applying purchasing power parity based on exchange rate and domestic inflation rates: 7.6% in 2016 and 7.0% from 2017 onward; and foreign inflation rates: 1.5% in 2016, 1.4% in 2017, and 1.5% from 2018 onward.

^d Includes interest and commitment charges. Financing charges during implementation of ADB loans are computed at (i) 2.0% per annum for Tranche 2 loan from ADB's concessional ordinary capital resources (OCR); and (ii) 5-year US dollar fixed swap rate plus an effective contractual spread of 0.5%, a maturity premium of 0.1%, and a commitment charge of 0.15% on the undisbursed portion for Tranche 2 loan from ADB's OCR. Financing charges during implementation for the European Investment Bank loan were calculated based on the same assumptions as ADB's OCR loan.

Source: ADB estimates.

27. The Government of Mongolia is the borrower of the loan and will relend the proceeds of ADB's loans to the MUB on terms and conditions acceptable to ADB. The grant proceeds will be passed through the MUB without financing charges.

28. EIB will finance \$19.64 million representing 16.21% of the total financing plan. The EIB loan will have a 25-year term including a grace period of 5 years and an interest rate in accordance with its LIBOR-based lending facility. EIB will cofinance Tranche 2 for civil works and equipment specific to water supply and sewerage improvements, including contingencies and financing charges during implementation. The MUB will finance the remaining \$35.15 million, or 29.02%, for (i) land acquisition and resettlement support, (ii) civil works and equipment, (iii) taxes and duties, and (iv) contingencies.

C. Detailed Cost Estimates by Expenditure Category

Table 5: Detailed Cost Estimates By Expenditure Category for Project 1

Expenditure Item	(MNT Million)				(US\$ Million)					% of Total Base Cost	
	Foreign Currency	Local Currency			Total Cost	Foreign	Local Currency				Total Cost
		Excluding Taxes	Taxes	Total			Excluding Taxes	Taxes	Total		
A. Investment Costs^a											
1. Land acquisition	0.00	1,448.40	0.00	1,448.40	1,448.40	0.00	1.02	0.00	1.02	1.02	1.1
2. Civil works ^b	72,150.24	36,204.08	8,065.20	44,283.88	102,646.60	50.81	25.48	5.68	31.17	82.00	88.1
2.1 Water supply and sewerage	23,996.82	10,805.67	2,754.66	13,574.53	37,557.15	16.90	7.61	1.94	9.56	26.46	28.4
2.2 Socioeconomic facilities	4,302.39	1,945.30	496.98	2,442.28	6,744.67	3.03	1.37	.35	1.72	4.75	5.1
2.3 Heat distribution networks	8,803.57	3,975.80	1,008.15	4,983.95	13,787.52	6.20	2.80	.71	3.51	9.71	10.4
2.4 Civil works for USUG	5253.74	0.00	0.00	0.00	5,253.74	3.70	0.00	0.00	0.00	3.70	4.0
2.5 Landscaping and river embankments	5,637.13	3,677.62	724.16	4,401.79	10,038.91	3.97	2.59	.51	3.10	7.07	7.6
2.6 Other civil works	24,156.59	15,799.69	3,081.25	18,881.33	43,052.13	17.01	11.11	2.17	13.28	30.29	32.6
3. Detailed engineering design & supervision	6,176.70	0.00	0.00	0.00	6,176.70	4.35	0.00	0.00	0.00	4.35	4.7
4. Resettlement support	0.00	2,504.88	0.00	2,504.88	2,504.88	0.00	1.76	0.00	1.76	1.76	1.9
5. Program management support	2,840.00	0.00	0.00	0.00	2,840.00	2.00	0.00	0.00	0.00	2.00	2.1
6. Consulting services	2,840.00	0.00	0.00	0.00	2,840.00	2.00	0.00	0.00	0.00	2.00	2.1
Subtotal (A)	84,006.93	40,157.37	8,079.80	48,237.2	132,244.09	59.16	28.28	5.68	33.97	93.13	100.0
Total Base Cost	84,006.93	40,157.37	8,079.80	48,237.2	132,244.09	59.16	28.28	5.68	33.97	93.13	100.0
B. Contingencies^c											
Physical contingencies	4,247.59	1,915.02	426.00	2,341.02	6,588.61	2.99	1.35	0.30	1.65	4.64	5.0
Price contingencies	10,698.68	4,873.79	1,157.33	6,031.12	16,729.79	1.76	0.80	0.19	0.99	2.75	3.0
Subtotal (B)	14,946.27	6,788.81	1,583.33	8,372.14	23,318.41	4.75	2.15	0.49	2.64	7.39	7.0
C. Interest and Commitment Charges^d											
Interest during implementation	4,610.60	1,481.06	0.00	1,481.06	6,091.66	3.02	0.97	0.00	0.97	3.99	4.0
Commitment charges	20.54	0.00	0.00	0.00	20.54	0.01	0.00	0.00	0.00	0.01	0.0
Subtotal (C)	4,631.14	1,481.06	0.00	1,481.06	6,112.20	3.003	0.97	0.00	0.97	4.00	4.0
Total Project Cost (A+B+C)	103,584.34	48,427.24	9,663.13	58,090.36	161,674.70	66.94	31.40	6.18	37.58	104.52	112.0

MNT = Mongolian togrog, USUG = Ulaanbaatar Water Supply and Sewerage Authority.

^a In mid-2013 prices. Includes value-added tax and import duties. The taxes and duties are estimated at \$6.18 million for project 1. The government will finance these taxes and duties through tax exemptions.

^b Expenditure item includes equipment.

^c Physical contingencies computed at 5% of civil works and consulting services. Price contingencies computed at 3%-8% for local currency costs and 0.5-2.2% for foreign exchange costs; includes provision for exchange rate fluctuation under a purchasing power parity exchange rate.

^d Includes interest and commitment charges. Interest during construction on the Asian Development Bank (ADB) loans has been computed (i) at 2.0% per annum of the first tranche's loan from ADB's Special Funds resources (Asian Development Fund); and (ii) at the 5-year (corresponding to implementation period) USD fixed swap rate plus an effective contractual spread of 0.4%; and a commitment charge of 0.15% on the undisbursed portion of the first tranche's loan from ADB's ordinary capital resources. Financing charges during implementation for the European Investment Bank (EIB) loan were also calculated based on the 5-year dollar fixed swap rate.

Source: Asian Development Bank.

Table 6: Detailed Cost Estimates By Expenditure Category for Project 2

Expenditure Item	(MNT million)					(\$ million)				
	Foreign Currency	Local Currency			Total Cost	Foreign Currency	Local Currency			Total Cost
		Excluding Taxes	Taxes	Total			Excluding Taxes	Taxes	Total	
A. Investment Costs										
1. Civil works and equipment	82,499.78	75,899.80	6,599.98	82,499.78	164,999.56	41.25	37.95	3.30	41.25	82.50
1.1 Roads and associated infrastructure including heating	50,107.53	46,098.93	4,008.60	50,107.53	100,215.06	25.05	23.05	2.00	25.05	50.11
1.2 Water supply and sewerage including flood protection	14,749.50	13,569.54	1,179.96	14,749.50	29,499.00	7.37	6.78	0.59	7.37	14.75
1.3 Socioeconomic facilities	17,642.75	16,231.33	1,411.42	17,642.75	35,285.50	8.82	8.12	0.71	8.82	17.64
2. Land acquisition and resettlement	0.00	23,427.92	0.00	23,427.92	23,427.92	0.00	11.71	0.00	11.71	11.71
3. Detailed engineering design and supervision	4,957.00	4,560.44	396.56	4,957.00	9,914.00	2.48	2.28	0.20	2.48	4.96
4. Program management support and capacity development ^a	4,294.20	3,950.66	343.54	4,294.20	8,588.40	2.15	1.98	0.17	2.15	4.29
Subtotal (A)	91,750.98	107,838.82	7,340.08	115,178.90	206,929.88	45.88	53.92	3.67	57.59	103.46
B. Contingencies										
1. Physical	4,587.57	5,298.25	460.70	5,758.97	10,346.54	2.29	2.65	0.23	2.88	5.17
2. Price	5,944.68	5,369.90	466.95	5,836.85	11,781.53	2.97	2.68	0.23	2.92	5.89
Subtotal (B)	10,532.25	10,668.15	927.67	11,595.82	22,128.07	5.27	5.33	0.46	5.80	11.06
C. Financing Charges During Implementation										
1. Interest during construction	6,254.23	5,753.89	500.34	6,254.23	12,508.47	3.13	2.88	0.25	3.13	6.26
2. Commitment charges	356.35	327.84	28.51	356.35	712.69	0.18	0.16	0.01	0.18	0.36
Subtotal (C)	6,610.58	6,081.73	528.85	6,610.58	13,221.16	3.31	3.04	0.26	3.31	6.62
Total Project Cost (A+B+C)	108,893.81	124,588.71	8,796.59	133,385.30	242,279.11	54.45	62.29	4.40	66.69	121.14

Note: Numbers may not sum precisely because of rounding.

MNT = Mongolian togrog.

^a Includes salaries of program management office (PMO) staff (PMO staff will not be civil servants receiving salaries from the government); and consulting services for (i) detailed design, construction supervision, and engineering services inputs for Project 3 feasibility study; and (ii) program management and implementation support for Project 2, urban planning and subcenter development, community participation and small- and medium-sized enterprise development, and preparation and completion of Project 3 feasibility study.

Source: Asian Development Bank estimates.

D. Allocation and Withdrawal of Loan and Grant Proceeds

**Table 7: Allocation and Withdrawal of ADB Ordinary Capital Resources
Loan Proceeds for Project 1**

ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS				
Ulaanbaatar Urban Services and Ger Areas Development Investment Program				
CATEGORY				ADB OCR FINANCING
No.	Item	Total Amount Allocated for ADB Financing (in \$ equivalent)		Percentage and Basis for Withdrawal from the Loan Account
		Category	Subcategory	
1	Civil Works	23,500,000		
	1A Heat distribution networks**		4,949,010	55.00% of total expenditure claimed*
	1B Other civil works excluding heat distribution networks		18,550,990	69.60% of total expenditure claimed
2	Interest and Commitment Charges	2,240,000		100.0% of total amount due.
3	Unallocated	1,760,000		
	TOTAL	27,500,000		

ADB = Asian Development Bank, OCR = ordinary capital resources.

* Exclusive of taxes and duties within the territory of the Borrower.

** Disbursements for this expenditure item are preconditioned on the approval of the parallel EIB loan.

Source: Asian Development Bank.

**Table 8: Allocation and Withdrawal of ADB Asian Development Fund
Loan Proceeds for Project 1**

ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS				
Ulaanbaatar Urban Services and Ger Areas Development Investment Program				
CATEGORY				ADB ADF FINANCING
No.	Item	Total Amount Allocated for ADB Financing (SDR)		Percentage and Basis for Withdrawal from the Loan Account
		Category	Subcategory	
1	Civil Works	7,414,300		100.00% of total expenditure claimed*
2	Detailed Engineering and Design Supervision	2,810,700		100.00% of total expenditure claimed*
3	Program Management Support and Administration	1,293,000		100.00% of total expenditure claimed*
4	Consulting Services	1,293,000		100.00% of total expenditure claimed*
5	Interest and Commitment Charges	446,000		100.00% of total amount due
6	Unallocated	1,286,000		
	TOTAL	14,542,000		

ADB = Asian Development Bank, ADF = Asian Development Fund.

* Exclusive of taxes and duties within the territory of the Borrower.

Source: Asian Development Bank.

**Table 9: Allocation and Withdrawal of ADB (Urban Environmental Infrastructure Fund)
Grant Proceeds for Project 1**

ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS Ulaanbaatar Urban Services and Ger Areas Development Investment Program)				
		CATEGORY		UEIF GRANT FOR USUG
		Total Amount Allocated for ADB Financing (in \$ million equivalent)		Percentage and Basis for Withdrawal from the Grant Account
No.	Item	Category	Subcategory	
1	Works			100.00% of total expenditure claimed*
TOTAL		3,700,000		

ADB = Asian Development Bank, UEIF = Urban Environmental Infrastructure Fund, USUG = Ulaanbaatar Water Supply and Sewerage Authority.

* Exclusive of taxes and duties within the territory of the Borrower.

Source: Asian Development Bank

**Table 10: Allocation and Withdrawal of ADB Ordinary Capital Resources
Loan Proceeds for Project 2**

ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS			
(Ulaanbaatar Urban Services and Ger Areas Development Investment Program – Project 2)			
No.	Item	Total Amount Allocated for ADB Financing (\$) Category	Basis for Withdrawal from the Loan Account
1	Works*	34,630,000	60% of total expenditure claimed
2	Interest and commitment charges	2,480,000	100% of total amounts due
	Total	37,110,000	

* Subject to the condition for withdrawal described in paragraph 6 of Schedule 2.

Source: Asian Development Bank.

**Table 11: Allocation and Withdrawal of ADB Concessional Ordinary Capital Resources
Loan Proceeds for Project 2**

ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS			
(Ulaanbaatar Urban Services and Ger Areas Development Investment Program – Project 2)			
No.	Item	Total Amount Allocated for ADB Financing (SDR) Category	Basis for Withdrawal from the Loan Account
1	Project Cost**	20,976,000	100% of total expenditure claimed
2	Interest charge	613,000	100% of total amounts due
	TOTAL	21,589,000	

SDR = special drawing right.

* Subject to the condition for withdrawal described in paragraph 6 of Schedule 3.

Source: Asian Development Bank.

E. Detailed Cost Estimates by Financier

Table 12: Detailed Cost Estimates by Financier for Project 1

Item	ADB OCR Loan		ADB ADF Loan		UEIF Grant		European Investment Bank		Municipality of Ulaanbaatar		Total Cost
	Amount	% of Cost Category	Amount	% of Cost Category	Amount	% of Cost Category	Amount	% of Cost Category	Total	% of Cost Category	
A. Investment Costs^a											
1. Land acquisition	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.02	100.00	1.02
2. Civil works ^b											
a. Water supply and sewerage	0.00	0.00	0.00	0.00	0.00	0.00	25.00	100.00	0.00	0.00	25.00
b. Civil works for USUG	0.00	0.00	0.00	0.00	3.70	100.00	0.00	0.00	0.00	0.00	3.70
c. Socioeconomic facilities	0.00	0.00	4.40	100.00	0.00	0.00	0.00	0.00	0.00	0.00	4.40
d. Heat distribution networks	4.95	55.00	0.00	0.00	0.00	0.00	0.00	0.00	4.05	45.00	9.00
e. Landscaping and river embankments	0.00	0.00	7.07	100.00	0.00	0.00	0.00	0.00	0.00	0.00	7.07
f. Other civil works	18.55	69.60	0.00	0.00	0.00	0.00	0.00	0.00	8.10	30.40	26.65
Subtotal Civil Works	23.50	30.99	11.47	15.13	3.70	4.88	25.00	32.97	12.15	16.02	75.82
3. Detailed engineering design and supervision	0.00	0.00	4.35	100.00	0.00	0.00	0.00	0.00	0.00	0.00	4.35
4. Resettlement support	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.76	100.00	1.76
5. Program management support	0.00	0.00	2.00	100.00	0.00	0.00	0.00	0.00	0.00	0.00	2.00
6. Consulting services	0.00	0.00	2.00	100.00	0.00	0.00	0.00	0.00	0.00	0.00	2.00
7. Duties and taxes	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	6.18	100.00	6.18
Subtotal (A)	23.50	25.23	19.82	21.28	3.70	43.97	25.00	26.80	21.11	22.67	93.13
B. Contingencies^c	1.76	23.78	1.99	26.89	0.00	0.00	2.34	31.70	1.30	17.57	7.40
C. Interest and Commitment Charges^d	2.24	56.50	0.69	17.25	0.00	0.00	1.04	26.00	0.00	0.00	4.00
Total Project Cost (A+B+C)	27.50	26.30	22.50	21.50	3.70	3.50	28.38	27.25	22.44	21.50	104.52

ADB = Asian Development Bank, ADF = Asian Development Fund, OCR = ordinary capital resources, UEIF = Urban Environmental Infrastructure Fund, USUG = Ulaanbaatar Water Supply and Sewerage Authority.

Note: Numbers may not sum precisely because of rounding.

^a In mid-2013 prices. Includes value-added tax and import duties. The taxes and duties are estimated at \$6.18 million for project 1. The government will finance these taxes and duties through tax exemptions.

^b Expenditure item Includes equipment.

^c Physical contingencies computed at 5% of civil works and consulting services. Price contingencies computed at 3%-8% for local currency costs and 0.5%-2.2% for foreign exchange costs.

Includes provision for exchange rate fluctuation under a purchasing power parity exchange rate.

^d Includes interest and commitment charges. Financing charges during implementation on the Asian Development Bank (ADB) loans has been computed (i) at 2.0% per annum of the first tranche's loan from ADB's Special Funds resources (Asian Development Fund); and (ii) at the 5-year (corresponding to implementation period) USD fixed swap rate plus an effective contractual spread of 0.4%; and a commitment charge of 0.15% on the undisbursed portion of the first tranche's loan from ADB's ordinary capital resources. Financing charges during implementation for the European Investment Bank loan were also calculated based on the 5-year dollar fixed swap rate.

Source: Asian Development Bank.

Table 13: Detailed Cost Estimates by Financier for Project 2
(\$ million)

Item	ADB OCR Loan		ADB Concessional OCR Loan		European Investment Bank		Municipality of Ulaanbaatar		Total Cost
	Amount	% of Cost Category	Amount	% of Cost Category	Amount	% of Cost Category	Amount	% of Cost Category	
A. Investment Costs									
1. Civil works and equipment									
1.1 Roads and associated infrastructure including heating	30.07	60.00	0.00	0.00	0.00	0.00	20.04	40.00	50.11
1.2 Water supply and sewerage including flood protection	0.00	0.00	0.00	0.00	14.75	100.00	0.00	0.00	14.75
1.3 Socioeconomic facilities	0.00	0.00	17.64	100.00	0.00	0.00	0.00	0.00	17.64
2. Land acquisition and resettlement	0.00	0.00	0.00	0.00	0.00	0.00	11.71	100.00	11.71
3. Detailed engineering design and supervision	0.00	0.00	4.96	100.00	0.00	0.00	0.00	0.00	4.96
4. Program management support and capacity development ^a	0.00	0.00	4.29	100.00	0.00	0.00	0.00	0.00	4.29
Subtotal (A)	30.07	29.06	26.89	25.99	14.75	14.26	31.75	30.69	103.46
B. Contingencies									
1. Physical	2.13	41.18	0.71	13.77	0.74	14.31	1.59	30.74	5.17
2. Price	2.43	41.26	0.81	13.75	0.84	14.26	1.81	30.73	5.89
Subtotal (B)	4.56	41.22	1.52	13.76	1.58	14.28	3.40	30.73	11.06
C. Financing Charges During Implementation									
1. Interest during construction	2.35	37.54	0.78	12.46	3.13	50.00	0.00	0.00	6.26
2. Commitment charges	0.13	36.11	0.04	11.11	0.18	50.00	0.00	0.00	0.36
Subtotal (C)	2.48	37.50	0.83	12.50	3.31	50.00	0.00	0.00	6.62
Total Project Cost (A+B+C)	37.11	30.63	29.24	24.14	19.64	16.21	35.15	29.02	121.14

Note: Numbers may not sum precisely because of rounding.

ADB = Asian Development Bank, OCR = ordinary capital resources, PMO = program management office.

^a Includes salaries of PMO staff (PMO staff will not be civil servants receiving salaries from the government); and consulting services for (i) detailed design, construction supervision, and engineering services inputs for Project 3 feasibility study; and (ii) program management and implementation support for Project 2, urban planning and subcenter development, community participation and small- and medium-sized enterprise development, and preparation and completion of Project 3 feasibility study.

Source: Asian Development Bank estimates.

F. Detailed Cost Estimates by Outputs and/or Components

Table 14: Detailed Cost Estimates by Outputs and/or Components for Project 1

Item	Total	Expanded Roads and Urban Services								Institutional Strengthening and Capacity Building									
		RI	% of Cost	WSSI Category	% of Cost	SSI Category	% of Cost	HSE Category	% of Cost	MESP Category	% of Cost	IEPS Category	% of Cost	PMIS Category	% of Cost	SSP Category	% of Cost	SDCE Category	% of Cost
A. Investment Costs^a																			
1. Land acquisition	1.02	0.00	0.0	0.00	0.00	0.03	3.1	0.99	97.4	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2. Civil works ^b	81.99	21.61	26.4	11.76	14.3	13.05	15.9	26.89	32.8	3.70	4.3	5.0	5.8	0.00	0.00	0.00	0.00	0.00	0.00
3. Detailed engineering design and supervision	4.35	1.22	28.0	0.63	14.5	0.22	5.1	2.25	51.7	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4. Resettlement support	1.76	1.76	100.0	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
5. Program management support	2.00	0.00	0.0	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2.00	100.00	0.00	0.00	0.00	0.00
6. Consulting services	2.00	0.00	0.0	0.00	0.0	0.00	0.0	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.50	25.00	1.50	75.00
Subtotal (A)	93.13	24.59	26.4	12.39	13.3	13.31	14.3	30.14	32.4	3.70	4.3	5.0	5.4	2.00	2.1	0.50	0.5	1.50	1.6
B. Contingencies^c																			
1. Physical contingencies	4.64	1.27	27.4	0.85	18.2	0.66	14.3	1.41	30.4	0.00	0.00	0.25	5.4	0.10	2.2	0.03	0.5	0.08	1.6
2. Price contingencies	2.75	0.81	29.6	0.39	14.3	0.43	15.8	0.95	34.7	0.00	0.00	0.16	5.7	0.00	0.0	0.00	0	0.00	0.0
Subtotal (B)	7.39	2.08	28.2	1.24	16.8	1.10	14.9	2.36	32.0	0.00	0.00	0.41	5.5	0.10	1.4	0.03	0.3	0.08	1.0
C. Interest and Commitment Charges^d	4.00																		
Total Project Cost (A+B+C)	104.52	26.68	26.5	13.63	13.6	14.40	14.3	32.50	33.2	3.70	3.7	5.41	5.4	2.10	2.1	0.53	0.5	1.58	1.6

HSE = heating service expansion, IEPS = increased economic and public services, MESP = more efficient service providers, PMIS = program management and implementation support, RI = roads improvement, SDCE = subcenter development and community engagement, SSI = sewerage system improvement, SSP = strengthening service providers, WSSI = water supply system improvement.

Note: Numbers may not sum precisely because of rounding.

^a In mid-2013 prices. Includes value-added tax and import duties. The taxes and duties are estimated at \$6.18 million for project 1. The government will finance these taxes and duties through tax exemptions.

^b Expenditure item includes equipment.

^c Physical contingencies computed at 5% of civil works and consulting services. Price contingencies computed at 3%-8% for local currency costs and 0.5-2.2% for foreign exchange costs; includes provision for exchange rate fluctuation under a purchasing power parity exchange rate.

^d Includes interest and commitment charges. Financing charges during implementation on the Asian Development Bank (ADB) loans has been computed (i) at 2.0% per annum of the first tranche's loan from ADB's Special Funds resources (Asian Development Fund); and (ii) at the 5-year (corresponding to implementation period) USD fixed swap rate plus an effective contractual spread of 0.4%; and a commitment charge of 0.15% on the undisbursed portion of the first tranche's loan from ADB's ordinary capital resources. Financing charges during implementation for the European Investment Bank loan were also calculated based on the 5-year dollar fixed swap rate.

Source: Asian Development Bank.

Table 15: Detailed Cost Estimates by Outputs and/or Components for Project 2
(\$ million)

Item	Total Cost	Expanded Roads and Urban Services				Improved Economic and Public Services		Institutional Strengthening and Capacity Development			
		Roads Improvement	% of Cost Category	Water Supply, Wastewater, and Drainage Services	% of Cost Category	Heating Services	% of Cost Category	Socio-economic Facilities	% of Cost Category	Project Management Support	% of Cost Category
A. Investment costs											
1. Civil works and equipment	82.50	19.48	23.61	15.75	19.09	30.62	37.12	16.64	20.17	0.00	0.00
2. Land acquisition and resettlement	11.71	10.58	90.28	0.00	0.00	0.00	0.00	1.14	9.72	0.00	0.00
3. Detailed engineering design and supervision	4.96	0.63	12.76	0.99	19.89	2.28	45.96	1.06	21.38	0.00	0.00
4. Program management support and capacity development ^a	4.29	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.29	100.00
Subtotal (A)	103.46	30.69	29.66	16.74	16.18	32.90	31.80	18.84	18.21	4.29	4.15
B. Contingencies											
1. Physical	5.17	1.51	29.18	0.74	14.26	1.53	29.59	0.93	18.03	0.46	8.94
2. Price	5.89	1.45	24.69	0.89	15.07	1.93	32.81	1.23	20.84	0.39	6.58
Subtotal (B)	11.06	2.96	26.79	1.63	14.69	3.46	31.31	2.16	19.53	0.85	7.68
C. Financing charges During Implementation											
1. Interest during construction	6.26	1.44	23.00	1.06	16.93	1.81	28.91	0.76	12.14	1.20	19.17
2. Commitment charges	0.36	0.08	22.22	0.06	16.67	0.10	27.78	0.04	11.11	0.07	19.44
Subtotal (C)	6.62	1.52	22.96	1.12	16.92	1.91	28.85	0.80	12.08	1.27	19.18
Total Project Cost (A+B+C)	121.14	35.17	29.03	19.48	16.08	38.27	31.59	21.00	17.99	6.41	5.29

Note: Numbers may not sum precisely because of rounding.

^a Includes salaries of program management office (PMO) staff (PMO staff will not be civil servants receiving salaries from the government); and consulting services for (i) detailed design, construction supervision, and engineering services inputs for Project 3 feasibility study; and (ii) program management and implementation support for Project 2, urban planning and subcenter development, community participation and small- and medium-sized enterprise development, and preparation and completion of Project 3 feasibility study.

Source: Asian Development Bank estimates.

G. Detailed Cost Estimates by Year**Table 16: Detailed Cost Estimates by Year for Project 1**
(\$ million)

Source of Funds	Total	2014	2015	2016	2017	%
I. ADF and OCR loans						
A. Investment cost						
1. Land acquisition	0.00	0.00	0.00	0.00	0.00	0.00
2. Civil works	34.97	3.49	10.5	13.99	6.99	69.94
2.1 Heating distribution networks	4.95	0.49	1.49	1.98	0.99	9.90
2.2 Socioeconomic facilities	4.40	0.44	1.32	1.76	0.88	8.80
2.3 Landscaping and river embankments	7.07	0.71	2.12	2.83	1.41	14.14
2.4 Other civil works	18.55	1.86	5.56	7.42	3.71	37.10
3. Detailed engineering design & supervision	4.35	0.44	1.31	1.74	0.87	8.70
4. Resettlement support	0.00	0.00	0.00	0.00	0.00	0.00
5. Program management support	2.00	0.20	0.60	0.80	0.40	4.00
6. Consulting services	2.00	0.20	0.60	0.80	0.40	4.00
Subtotal (A)	43.32	4.33	13.00	17.33	8.66	86.64
B. Contingencies	3.75	0.38	1.13	1.50	0.75	7.50
C. Duties and taxes	0.00	0.00	0.00	0.00	0.00	0.00
D. Interest and commitment charges	2.93	0.29	0.88	1.17	0.59	5.86
Subtotal (B+C+D)	6.68	0.67	2.00	2.67	1.34	13.36
Total ADF and OCR Loans	50.00	5.00	15.00	20.00	10.00	100.00
II. EIB cofinancing						
A. Investment cost						
1. Land acquisition	0.00	0.00	0.00	0.00	0.00	0.00
2. Civil works	25.00	2.50	7.50	10.00	5.00	88.10
3. Resettlement support	0.00	0.00	0.00	0.00	0.00	0.00
4. Consulting services	0.00	0.00	0.00	0.00	0.00	0.00
Subtotal (A)	25.00	2.50	7.50	10.00	5.00	88.10
B. Contingencies	2.34	0.23	0.70	0.93	0.47	8.20
C. Duties and taxes	0.00	0.00	0.00	0.00	0.00	0.00
D. Interest and commitment charges	1.04	0.10	0.31	0.42	0.21	3.70
Subtotal (B+C+D)	3.38	0.34	1.01	1.35	0.68	11.90
Total EIB cofinancing	28.38	2.84	8.51	11.35	5.68	100.00
III. UEIF grant						
A. Investment cost						
1. Land acquisition	0.00	0.00	0.00	0.00	0.00	0.00
2. Civil works	3.70	0.37	1.11	1.48	0.74	100.00
3. Resettlement support	0.00	0.00	0.00	0.00	0.00	0.00
4. Consulting services	0.00	0.00	0.00	0.00	0.00	0.00
Subtotal (A)	3.70	0.37	1.11	1.48	0.74	100.00
B. Contingencies	0.00	0.00	0.00	0.00	0.00	0.00
C. Duties and taxes	0.00	0.00	0.00	0.00	0.00	0.00
D. Interest and commitment charges	0.00	0.00	0.00	0.00	0.00	0.00
Subtotal (B+C+D)	0.00	0.00	0.00	0.00	0.00	0.00
Total UEIF grant	3.70	0.37	1.11	1.48	0.74	100.00
IV. MUB counterpart fund						
A. Investment cost						
1. Land acquisition	1.02	0.10	0.31	0.41	0.20	4.60
2. Civil works	12.16	1.22	3.65	4.86	2.43	54.24
3. Resettlement support	1.76	0.18	0.53	0.70	0.35	7.90
4. Consulting services	0.00	0.00	0.00	0.00	0.00	0.00
Subtotal (A)	14.94	1.49	4.48	5.98	2.99	66.64
B. Contingencies	1.30	0.13	0.39	0.53	0.26	5.90
C. Duties and taxes	6.18	0.62	1.85	2.47	1.24	27.60
D. Interest and commitment charges	0.00	0.00	0.00	0.00	0.00	0.00
Subtotal (B+C+D)	7.48	0.75	2.24	2.99	1.50	33.36
Total MUB counterpart fund	22.42	2.24	6.72	8.97	4.49	100.00
Total investment (I + II + III + IV)	104.52	10.45	31.36	41.81	20.90	100.00
% Total project cost		10	30	40	20	

^a Numbers may not sum precisely because of rounding.

ADF = Asian Development Fund, EIB = European Investment Bank, MUB = Municipality of Ulaanbaatar, OCR = ordinary capital resources, UEIF = Urban Environmental Infrastructure Fund.
Source: Asian Development Bank.

Table 17: Detailed Cost Estimates by Year for Project 2

	(\$ million)						
Source of Funds	Total	2018	2019	2020	2021	2022	%
I. Concessional OCR and OCR loans							
A. Investment cost							
1. Land acquisition	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2. Civil works	43.88	0.00	3.60	16.56	20.20	3.52	66.14
2.1 Roads and associated infrastructure including heating	27.66	0.00	3.60	10.80	12.17	1.09	41.68
2.2 Socioeconomic facilities	16.23	0.00	0.00	5.76	8.04	2.43	24.46
3. Detailed engineering design and supervision	4.96	0.99	1.98	1.98	0.00	0.00	7.47
4. Resettlement support	0.00	0.00	0.00	0.00	0.00	0.00	0.00
5. Program management support	4.30	0.86	1.72	1.72	0.00	0.00	6.47
Subtotal (A)	53.14	1.85	7.30	20.26	20.20	3.52	80.08
B. Contingencies	6.09	0.38	1.15	2.09	2.20	0.27	9.18
C. Duties and taxes	3.82	-	0.31	1.44	1.76	0.31	5.75
D. Interest and commitment charges	3.31	0.21	0.62	1.13	1.20	0.15	4.99
Subtotal (B+C+D)	13.22	0.59	2.08	4.66	5.16	0.73	19.92
Total Concessional OCR and OCR Loans	66.35	2.44	9.38	24.92	25.36	4.25	100.00
II. EIB cofinancing							
A. Investment cost							
1. Land acquisition	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2. Civil works	13.57	0.00	2.04	5.43	6.11	0.00	69.10
3. Resettlement support	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4. Consulting services	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Subtotal (A)	13.57	0.00	2.04	5.43	6.11	0.00	69.10
B. Contingencies	1.58	0.10	0.30	0.54	0.57	0.07	8.03
C. Duties and taxes	1.18	0.00	0.18	0.47	0.53	0.00	6.01
D. Interest and commitment charges	3.31	0.21	0.62	1.13	1.20	0.15	16.86
Subtotal (B+C+D)	6.07	0.31	1.10	2.15	2.30	0.22	30.90
Total EIB Cofinancing	19.64	0.31	3.13	7.57	8.40	0.22	100.00
III. MUB counterpart fund							
A. Investment cost							
1. Land acquisition	5.65	2.26	3.39	0.00	0.00	0.00	16.06
2. Civil works	18.44	-	2.40	7.20	8.11	0.72	52.46
3. Resettlement support	5.13	2.05	3.08	0.00	0.00	0.00	14.59
4. Consulting services	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Subtotal (A)	29.21	4.31	8.86	7.20	8.11	0.72	83.11
B. Contingencies	3.40	0.21	0.64	1.16	1.23	0.15	9.67
C. Duties and taxes	2.54	0.37	0.77	0.63	0.71	0.06	7.23
D. Interest and commitment charges	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Subtotal (B+C+D)	5.94	0.59	1.41	1.79	1.93	0.21	16.89
Total MUB financing	35.15	4.90	10.27	8.99	10.05	0.94	100.00
Total investment	121.14	7.65	22.79	41.49	43.81	5.40	100.00
% Total project cost		6.3	18.8	34.2	36.2	4.5	

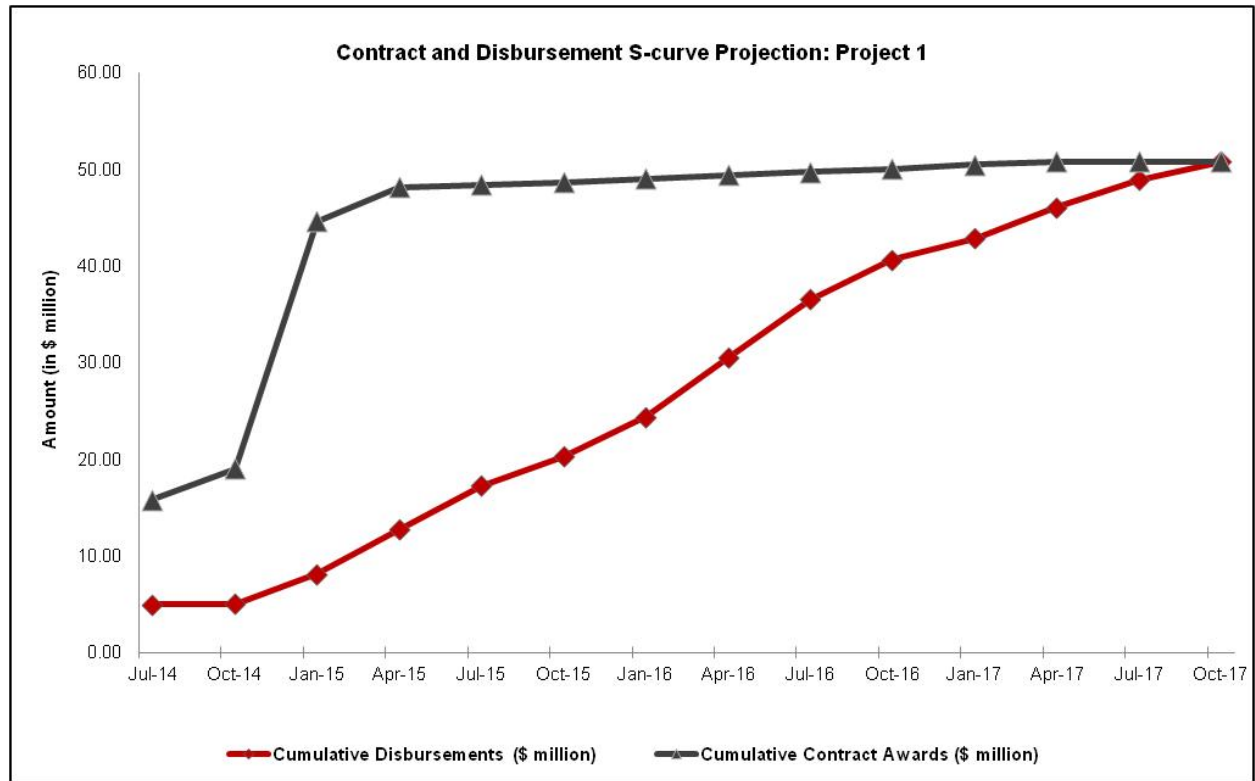
^a Numbers may not sum precisely because of rounding.

EIB = European Investment Bank, MUB = Municipality of Ulaanbaatar, OCR = ordinary capital resources.

Source: Asian Development Bank.

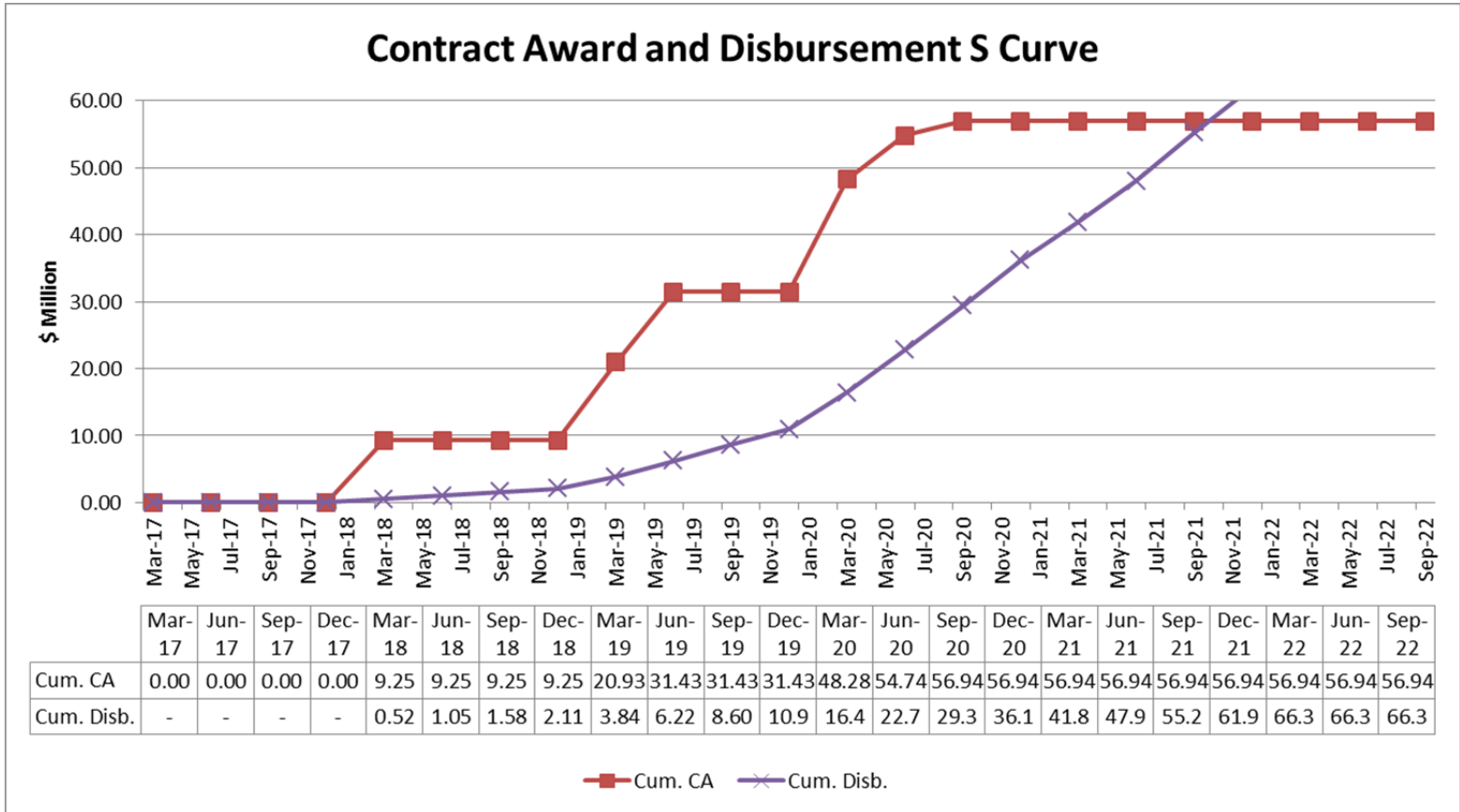
H. Contract and Disbursement S-Curve

Contract and Disbursement S-Curve for Project 1

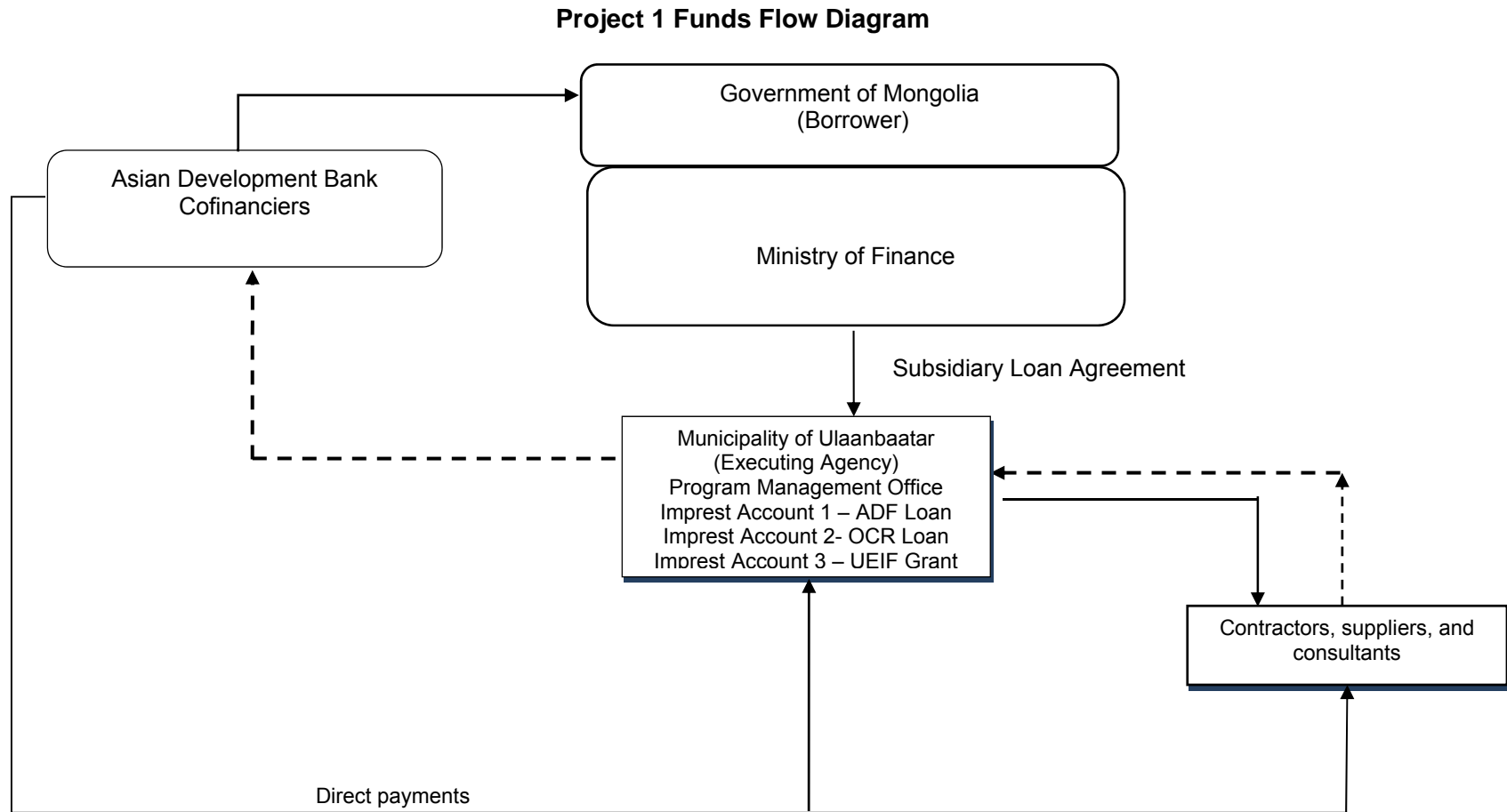


Item	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Cumulative contract awards (in \$ million)	15.84	19.08	44.60	48.13	48.39	48.66	49.01	49.37	49.72	50.00	50.00	50.00	50.00	50.00
Cumulative disbursements (in \$ million)	5.00	5.08	8.13	12.70	17.27	20.32	24.38	30.48	36.57	40.63	42.88	46.08	48.90	50.00

Contract and Disbursement S-Curve for Project 2



I. Funds Flow Diagrams

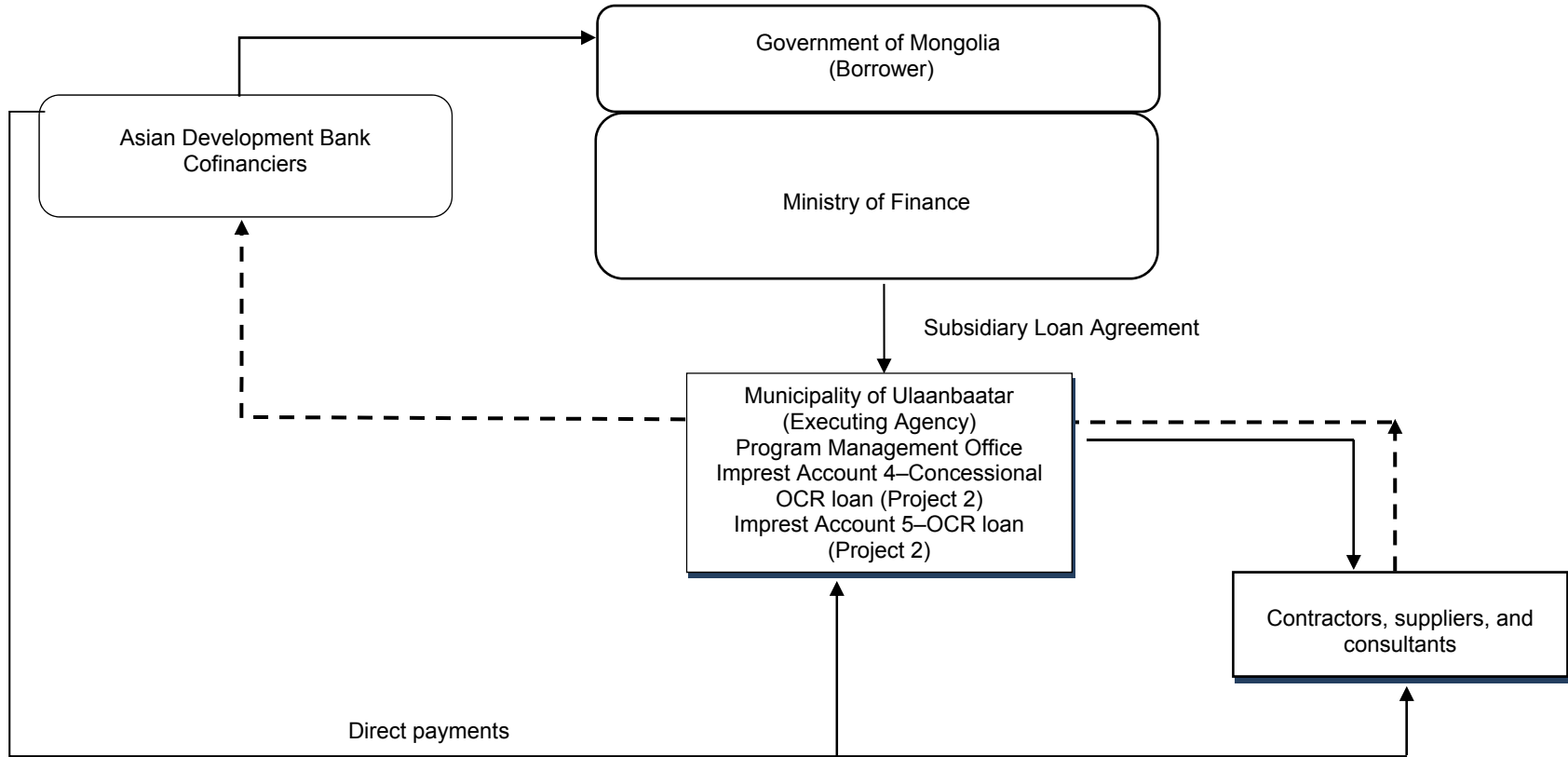


-----> = withdrawal application prepared by MUB and forwarded to Ministry of Finance (MOF)

————> = payments released to imprest accounts and/or directly to contractors

ADF = Asian Development Fund; EA = executing agency, OCR = ordinary capital resources; PMO = program management office; UEIF = urban environmental infrastructure fund

Project 2 Funds Flow Diagram



- - - -> = withdrawal application prepared by Municipality of Ulaanbaatar and forwarded to the Ministry of Finance

————> = payments released to imprest accounts and/or directly to contractors

OCR = ordinary capital resources.

Source: Asian Development Bank.

V. FINANCIAL MANAGEMENT

A. Financial Management Assessment

29. The financial management assessment (FMA) was carried out in accordance with ADB's guidelines to update the review of the capacity of the MUB with regard to its systems and procedures for financial management. The FMA was undertaken on MUB in its role as the executing agency for various subprojects specifically under Tranche 2 of the Ulaanbaatar Urban Services and *Ger* Areas Development Investment Program. The assessment covered funds flow arrangements, accounting policies and procedures, staffing, internal and external audit arrangements, reporting and monitoring system, and the financial information systems. An FMA questionnaire was used to gather information on financial management procedures from the treasury and finance department of the MUB.

30. In general, adequate knowledge and skills in program management, financial management, financial analysis, and management accounting are prevalent among the officers and staff of the MUB. The Government of Mongolia through its ministries, various decrees, and trainings strengthened the guidelines for financial management in its hierarchy of governance. The Public Sector Financial Management Law is the overarching decree which regulate the financial management and reporting system of government.

31. The MUB has undertaken studies and development projects funded by government and various donors such as the Japan International Cooperation Agency, World Bank, and others. Involvement had been from project conceptualization, budget preparation, detailed plans, procurement of goods, services, and infrastructure works, project supervision, monitoring, and evaluation. They are equipped with appropriate information and technology hardware and software programs which enable them to perform their tasks efficiently and generate timely reports. Accounting and finance departments are functioning efficiently with the use of electronic accounting system based on government-prescribed accounting system. The World Bank's review and study of the accounting and finance system of the MUB resulted to a set of recommendations to improve transparency in reporting system on the expenditure accounts and better inform the citizenry to access public utilities and services, which have received municipal funds for improvement.

32. The results of the FMA indicates that while the MUB has the financial management capacity and program management experience, interventions are required to strengthen its capacity to implement Tranche 2 of the investment program in accordance with ADB policies and procedures. The assessment rated the financial management risk of MUB before undertaking mitigating measures as moderate. While the MUB and PMO are already implementing Tranche 1, their staff still require training to ensure familiarity with ADB policies and procedures, and to improve their financial management capacity.

B. Disbursement

33. The loan proceeds will be disbursed in accordance with ADB's *Loan Disbursement Handbook* (2015, as amended from time to time),¹⁶ and detailed arrangements agreed upon between the government and ADB. Online training for project staff on disbursement policies and

¹⁶ Available at: http://www.adb.org/Documents/Handbooks/Loan_Disbursement/loan-disbursement-final.pdf

procedures is available.¹⁷ Project staff are encouraged to avail of this training to help ensure efficient disbursement and fiduciary control.

34. The MUB, through its PMO, will be responsible for all disbursement arrangements, including (i) preparing disbursement projections, (ii) requesting budgetary allocations for counterpart funds, (iii) collecting supporting documents, and (iv) preparing and sending withdrawal applications to ADB.

35. **Imprest fund procedure.** The government will open two separate imprest accounts for the concessional OCR and OCR loans proceeds under Tranche 2. The imprest accounts will be established, managed, and liquidated in accordance with ADB's *Loan Disbursement Handbook* and detailed arrangements agreed by the government and ADB. The total outstanding advance to the imprest accounts should not exceed the estimate of ADB's share of expenditures to be paid through the imprest accounts for the forthcoming 6 months. The currency of the imprest accounts will be the US dollar. The respective imprest account, which will be opened at a commercial bank, will be used exclusively for ADB's share of eligible expenditures.¹⁸ The MUB as executing agency will be accountable and responsible for proper use of advances to the imprest accounts. The MUB may request for initial and additional advances to the respective imprest accounts based on an Estimate of Expenditure Sheet setting out the estimated expenditures to be financed through the respective imprest account for the forthcoming 6 months. Supporting documents should be submitted to ADB or retained by the MUB in accordance with ADB's *Loan Disbursement Handbook* (2015, as amended from time to time) when liquidating or replenishing the imprest accounts.

36. **Statement of expenditure (SOE) procedure.** The SOE procedure¹⁹ may be used for reimbursement of eligible expenditures or liquidation of advances to the imprest accounts. The ceiling of the SOE procedure is the equivalent of \$100,000 per individual payment. Supporting documents and records for the expenditures claimed under the SOE should be maintained and made readily available for review by ADB's disbursement and review missions, upon ADB's request for submission of supporting documents on a sampling basis, and for independent audit. Reimbursement and liquidation of individual payments in excess of the SOE ceiling should be supported by full documentation when submitting the withdrawal application to ADB.

37. Before the submission of the first withdrawal application, the borrower should submit to ADB sufficient evidence of the authority of the person(s) who will sign the withdrawal applications on behalf of the government, together with the authenticated specimen signatures of each authorized person. The minimum value per withdrawal application is in accordance with the *Loan Disbursement Handbook*. Individual payments below such amount should be paid (i) by the MUB and subsequently claimed to ADB through reimbursement, or (ii) through the imprest fund procedure, unless otherwise accepted by ADB.

C. Accounting

38. The MUB will maintain separate books and records by funding source for all expenditures incurred on the project. The PMO will prepare consolidated project financial statements in accordance with the government's accounting laws and regulations, which are consistent with international accounting principles and practices.

¹⁷ Disbursement eLearning. http://wpqr4.adb.org/disbursement_elearning

¹⁸ Bank charges incurred in the operation of the imprest accounts may be financed from the loans and grant proceeds.

¹⁹ SOE forms are available in Appendix 9B and 9C of ADB's *Loan Disbursement Handbook*.

D. Auditing and Public Disclosure

39. The MUB will cause the detailed consolidated project financial statements to be audited in accordance with International Standards on Auditing, by an independent auditor acceptable to ADB. The audited project financial statements, together with the auditor's opinion, will be presented in the English language to ADB within 6 months from the end of the fiscal year by the MUB.

40. The audit report for the project financial statements will include a management letter and auditor's opinions, which cover (i) whether or not the project financial statements present an accurate and fair view or are presented fairly, in all material respects, in accordance with the applicable financial reporting standards; (ii) whether or not the proceeds of the loans and grant were used only for the purposes of the project; and (iii) whether or not the borrower or executing agency was in compliance with the financial covenants contained in the legal agreements (where applicable).

41. Compliance with financial reporting and auditing requirements will be monitored by review missions and during normal program supervision, and followed up regularly with all concerned, including the external auditor.

42. The government and the MUB have been made aware of ADB's approach to delayed submission, and the requirements for satisfactory and acceptable quality of the audited project financial statements.²⁰ ADB reserves the right to require a change in the auditor (in a manner consistent with the constitution of the borrower), or for additional support to be provided to the auditor, if the audits required are not conducted in a manner satisfactory to ADB, or if the audits are substantially delayed. ADB reserves the right to verify the project's financial accounts to confirm that the share of ADB's financing is used in accordance with ADB's policies and procedures.

43. Public disclosure of the audited project financial statements, including the auditor's opinion on the project financial statements, will be guided by ADB's Public Communications Policy 2011.²¹ After the review, ADB will disclose the audited project financial statements and the opinion of the auditors on the project financial statements no later than 14 days of ADB's confirmation of their acceptability by posting them on ADB's website. The management letter, additional auditor's opinions, and audited entity financial statements will not be disclosed.²²

²⁰ ADB's approach and procedures regarding delayed submission of audited project financial statements:

- (i) When audited project financial statements are not received by the due date, ADB will write to the executing agency advising that (a) the audit documents are overdue; and (b) if they are not received within the next 6 months, requests for new contract awards and disbursement such as new replenishment of imprest accounts, processing of new reimbursement, and issuance of new commitment letters will not be processed.
- (ii) When audited project financial statements are not received within 6 months after the due date, ADB will withhold processing of requests for new contract awards and disbursement such as new replenishment of imprest accounts, processing of new reimbursement, and issuance of new commitment letters. ADB will (a) inform the executing agency of ADB's actions; and (b) advise that the loan may be suspended if the audit documents are not received within the next 6 months.
- (iii) When audited project financial statements are not received within 12 months after the due date, ADB may suspend the loan.

²¹ Public Communications Policy: <http://www.adb.org/documents/pcp-2011?ref=site/disclosure/publications>

²² This type of information would generally fall under public communications policy exceptions to disclosure. ADB. 2011. *Public Communications Policy*. Paragraph 97(iv) and/or 97(v).

VI. PROCUREMENT AND CONSULTING SERVICES

A. Advance Contracting

44. ADB has approved advance contracting for consulting services for (i) detailed design, construction supervision, and engineering services inputs for Project 3 feasibility study; and (ii) program management and implementation support for Project 2, urban planning and subcenter development, community participation and SME development, and preparation and completion of Project 3 feasibility study. All advance contracting to be financed out of the proceeds of the loan shall be subject to and governed by ADB's Procurement Guidelines (2015, as amended from time to time)²³ and Guidelines on the Use of Consultants²⁴ (2013, as amended from time to time). The issuance of invitations to bid under advance contracting will be subject to ADB approval. The borrower, and the executing and implementing agencies have been advised that approval of advance contracting does not commit ADB to finance the project.

B. Procurement of Goods, Works, and Consulting Services

45. All procurement of goods and works will be undertaken in accordance with ADB's Procurement Guidelines.

46. All procurement contracts will contain anticorruption provisions as specified by ADB. Procurement will be carried out by the PMO with the support and guidance of detailed design consultants and project implementation support consultants.

47. Civil works at \$5,000,000 and above and goods at \$2,000,000 and above will be procured through international competitive bidding (ICB). Civil works between \$100,001 and \$4,999,999, and goods between \$100,001 and \$1,999,999 will be procured through national competitive bidding (NCB). Packages at \$100,000 and below will be procured through shopping method. Force accounts will be used for minor works that cannot be defined in advance. Before commencement of NCB procurement, ADB and the government may review the public procurement laws to ensure consistency with ADB's Procurement Guidelines. Any necessary modifications or clarifications will be documented in the procurement plan.

48. The procedures to be followed for national competitive bidding shall be those set forth in the Public Procurement Law of Mongolia of 1 December 2005, effective 1 February 2006, as amended on 6 February 2007, 16 July 2009, 10 June 2010, 9 June 2011, and December 2011 (referred to as PPLM), with the clarifications and modifications required for compliance with the provisions of ADB's Procurement Guidelines.

49. An 18-month procurement plan for both projects 1 and 2 indicating threshold and review procedures, goods, works, and consulting service contract packages and national competitive bidding guidelines are in Section C.

50. All consultants will be recruited according to ADB's Guidelines on the Use of Consultants. The terms of reference for all consulting services are detailed in Section D.

²³ Available at: <http://www.adb.org/Documents/Guidelines/Procurement/Guidelines-Procurement.pdf>.

²⁴ Available at: <http://www.adb.org/Documents/Guidelines/Consulting/Guidelines-Consultants.pdf>.

C. Procurement Plans**Basic Data for Tranche 1**

Project Name: Ulaanbaatar Urban Services and Ger Areas Development Investment Program–Tranche 1	
Project Number: 45007-004	Approval Number: 3098/3099/0380
Country: Mongolia	Executing Agency: Municipality of Ulaanbaatar
Project Procurement Classification: Category A	Implementing Agency: N/A
Project Procurement Risk: Substantial	
Project Financing Amount: US\$ 104,520,000 ADB Financing: US\$ 50,000,000 Cofinancing (ADB Administered): US\$ 3,700,000 Non-ADB Financing: US\$ 50,820,000	Project Closing Date: 30 June 2018
Date of First Procurement Plan: 15 May 2013	Date of this Procurement Plan: 22 August 2016, Version 2

A. Methods, Thresholds, Review and 18-Month Procurement Plan**1. Procurement and Consulting Methods and Thresholds**

Except as the Asian Development Bank (ADB) may otherwise agree, the following process thresholds shall apply to procurement of goods and works.

Procurement of Goods and Works		
Method	Threshold	Comments
International Competitive Bidding for Goods	US\$ 2,000,000 and Above	Prior review
National Competitive Bidding for Goods	Between US\$ 100,001 and US\$ 1,999,999	Prior review; only for first package
Shopping for Goods	Up to US\$ 100,000	Post review
International Competitive Bidding for Works	US\$ 5,000,000 and Above	Prior review
National Competitive Bidding for Works	Between US\$ 100,001 and US\$ 4,999,999	Prior review; only for first package
Shopping for Works	Up to US\$ 100,000	Post review

Consulting Services	
Method	Comments
Quality- and Cost-Based Selection for Consulting Firm	90:10
Quality-Based Selection for Consulting Firm	90:10
Individual Consultants Selection for Individual Consultant	

2. Goods and Works Contracts Estimated to Cost \$1 Million or More

The following table lists goods and works contracts for which the procurement activity is either ongoing or expected to commence within the next 18 months.

Package Number	General Description	Estimated Value	Procurement Method	Review (Prior/Post)	Bidding Procedure	Advertisement Date (quarter/year)	Comments
BHF06	Design, supply, and installation of heating plant in Bayankhoshuu subcenter	7,180,000.00	ICB	Prior	1S1E	Q3 / 2016	Prequalification of Bidders: N Domestic Preference Applicable: N Bidding Document: Plant
BRDH11	Roads, heating network, and associated infrastructure in Bayankhoshuu subcenter (Phase 1)	5,076,000.00	ICB	Prior	1S1E	Q3 / 2016	Prequalification of Bidders: N Domestic Preference Applicable: N Bidding Document: Small Works
BRDH14	Roads, heating network, and associated infrastructure in Bayankhoshuu subcenter (Phase 2)	8,304,000.00	ICB	Prior	1S1E	Q4 / 2016	Prequalification of Bidders: N Domestic Preference Applicable: N Bidding Document: Small Works
BSEC13	Electricity and telecommunications network in Bayankhoshuu and Selbe subcenters	1,093,000.00	NCB	Prior	1S1E	Q3 / 2016	Prequalification of Bidders: N Domestic Preference Applicable: N Bidding Document: Small Works
BSF05	Kindergarten, business incubator, and vocational training center in Bayankhoshuu subcenter	2,917,000.00	NCB	Prior	1S1E	Q3 / 2016	Prequalification of Bidders: N Domestic Preference Applicable: N Bidding Document: Small Works
BSLS09	Open space (landscape)	1,800,000.00	NCB	Prior	1S1E	Q3 / 2016	Prequalification of Bidders: N Domestic Preference Applicable: N Bidding Document: Small Works

SBR08	Three bridges in Selbe subcenter	2,912,000.00	NCB	Prior	1S1E	Q3 / 2016	Prequalification of Bidders: N Domestic Preference Applicable: N Bidding Document: Small Works
SHF06	Design, supply, and installation of heating plant in Selbe subcenter	7,958,000.00	ICB	Prior	1S1E	Q3 / 2016	Prequalification of Bidders: N Domestic Preference Applicable: N Bidding Document: Plant
SRDH11	Roads, heating network, and associated infrastructure in Selbe subcenter (Phase 1)	6,074,000.00	ICB	Prior	1S1E	Q3 / 2016	Prequalification of Bidders: N Domestic Preference Applicable: N Bidding Document: Small Works
SRDH14	Roads, heating network, and associated infrastructure in Selbe subcenter (Phase 2)	4,807,000.00	NCB	Prior	1S1E	Q4 / 2016	Prequalification of Bidders: N Domestic Preference Applicable: N Bidding Document: Small Works
SSF05	Kindergarten, business incubator, and vocational training center in Selbe subcenter	2,902,000.00	NCB	Prior	1S1E	Q3 / 2016	Prequalification of Bidders: N Domestic Preference Applicable: N Bidding Document: Small Works
WVOI	Design, Engineering, Supply, and Installation of Pump Equipment, SCADA System, Construction and Commissioning of Pumping Stations and Water Treatment Plant	3,700,000.00	NCB	Prior	1S1E	Q1 / 2016	Prequalification of Bidders: N Domestic Preference Applicable: N Bidding Document: Plant Comments: This package was advertised as ICB.

3. Consulting Services Contracts Estimated to Cost \$100,000 or More

The following table lists consulting services contracts for which the recruitment activity is either ongoing or expected to commence within the next 18 months.

Package Number	General Description	Estimated Value	Recruitment Method	Review (Prior/Post)	Advertisement Date (quarter/year)	Type of Proposal	Comments
CSOI	Improved Operations and Management of Service Providers, and Institutional and Regulatory Reform		QCBS	Prior	Q2 / 2016	STP	Assignment: International Quality-Cost Ratio: 90:10 Comments: 90:10 based on FAM

4. Goods and Works Contracts Estimated to Cost Less than \$1 Million and Consulting Services Contracts Less than \$100,000 (Smaller Value Contracts)

The following table lists smaller-value goods, works and consulting services contracts for which the activity is either ongoing or expected to commence within the next 18 months.

Goods and Works								
Package Number	General Description	Estimated Value	Number of Contracts	Procurement Method	Review (Prior/Post)	Bidding Procedure	Advertisement Date (quarter/year)	Comments
None								

Consulting Services								
Package Number	General Description	Estimated Value	Number of Contracts	Recruitment Method	Review (Prior/Post)	Advertisement Date (quarter/year)	Type of Proposal	Comments
None								

B. Indicative List of Packages Required Under the Project

The following table provides an indicative list of goods, works and consulting services contracts over the life of the project, other than those mentioned in previous sections (i.e., those expected beyond the current period).

Goods and Works							
Package Number	General Description	Estimated Value (cumulative)	Estimated Number of Contracts	Procurement Method	Review (Prior/Post)	Bidding Procedure	Comments
None							

Consulting Services							
Package Number	General Description	Estimated Value (cumulative)	Estimated Number of Contracts	Recruitment Method	Review (Prior/Post)	Type of Proposal	Comments
None							

C. List of Awarded and On-going, and Completed Contracts

The following tables list the awarded and on-going contracts, and completed contracts.

1. Awarded and Ongoing Contracts

Goods and Works							
Package Number	General Description	Estimated Value	Awarded Contract Value	Procurement Method	Advertisement Date (quarter/year)	Date of ADB Approval of Contract Award	Comments
None							

Consulting Services							
Package Number	General Description	Estimated Value	Awarded Contract Value	Recruitment Method	Advertisement Date (quarter/year)	Date of ADB Approval of Contract Award	Comments
CS1/CSDD	Detailed Engineering, Tendering and Construction Supervision Consulting Services	4,187,700.00	4,024,241.00	QCBS	Q2 / 2014	02-JUN-15	
CS2/CSPM	Program Management Support Services	1,250,000.00	1,196,033.00	QCBS	Q1 / 2014	17-AUG-15	
CS3/CSCE	Community Engagement and Small and Medium Enterprises Development Consulting Services	700,000.00	699,936.00	QCBS	Q1 / 2014	03-JUL-15	
CS4/CSSD	Improved Urban Planning and Subcenter Development Consulting Services	800,000.00	799,990.00	QCBS	Q2 / 2014	08-SEP-15	
ICS1-3	3 International Consultants	125,000.00	124,074.00	ICS	Q1 / 2015	10-SEP-15	
ICS4-9	6 National Consultants	37,000.00	35,493.00	ICS	Q1 / 2015	10-SEP-15	

D. Non-ADB Financing

The following table lists goods, works and consulting services contracts over the life of the project, financed by Non-ADB sources.

Goods and Works				
General Description	Estimated Value (cumulative)	Estimated Number of Contracts	Procurement Method	Comments
Sewage collector main in Bayankhoshuu subcenter	1,440,577.00	1	NCB	EIB-financed
Works of sewage collector main in Bayankhoshuu subcenter	1,170,000.00	1	NCB	EIB-financed
Flood protection and embankment (combined for culverts and embankment Bayankhoshuu and Selbe subcenters)	1,800,000.00	1	NCB	EIB-financed
Water and sewage pipes in Bayankhoshuu and Selbe subcenters (Phase 1)	1,085,000.00	1	NCB	EIB-financed
Water and sewage pipes for Bayankhoshuu and Selbe subcenters (Phase 2)	746,000.00	1	NCB	EIB-financed

Construction of two water reservoirs and supply pipes in Bayankhoshuu and Selbe subcenters	4,230,000.00	1	NCB	EIB-financed
Sewage collector main in Selbe subcenter	1,048,407.00	1	NCB	EIB-financed
Water supply and sewage connections in Bayankhoshuu and Selbe subcenters	4,000,000.00	1	NCB	EIB-financed
Rehabilitation of water supply and sewerage network	4,500,000.00	1	NCB	EIB-financed
Structural rehabilitation and wastewater treatment improvement at CWWTP	4,500,000.00	1	NCB	EIB-financed

Consulting Services				
General Description	Estimated Value (cumulative)	Estimated Number of Contracts	Recruitment Method	Comments
None				

E. National Competitive Bidding

A. Regulation and Reference Documents

1. The procedures to be followed for national competitive bidding shall be those set forth in the Public Procurement Law of Mongolia of 1 December 2005, effective 1 February 2006, as amended in February 2007; July 2009; and February, June and December 2011 (hereinafter referred to as PPLM), with the clarifications and modifications described in the following paragraphs required for compliance with the provisions of the ADB Procurement Guidelines.

B. Procurement Procedures

1. Eligibility [Recommended standard provision]

2. The eligibility of bidders shall be as defined under section I of the Procurement Guidelines; accordingly, no bidder or potential bidder should be declared ineligible for reasons other than those provided in section I of the Guidelines, **as amended from time to time**.

3. Government-owned enterprises in Mongolia shall be eligible for projects only if they can establish that they: (i) are legally and financially autonomous; (ii) operate under the principles of commercial law; and (iii) are not dependent agencies of the Borrower, Beneficiary, Recipient Executing Agency and/or the Implementing Agency.

2. Participation of Foreign Bidders

4. International bidders from eligible countries of ADB shall be allowed to participate in local procurement and may not be denied participation due to nationality.

3. Preferences

5. No domestic preference shall be given for domestic bidders and for domestically manufactured goods.

4. Prequalification and Registration

6. Prequalification is discouraged for procurement contracts using NCB. When used, particularly for works contracts, an individual prequalification exercise is acceptable for each contract as is the use of a registration system (or approved standing list) of contractors based on criteria such as experience, financial capacity, and technical capacity. Foreign bidders from eligible countries must, however, be allowed to register and to bid without unreasonable cost or additional requirements.

5. Rejection of All Bids and Rebidding

7. All bids shall not be rejected or new bids invited without ADB's prior written concurrence.

8. No bid shall be rejected merely on the basis of a comparison with the estimated cost or budget ceiling without ADB's prior written concurrence (with specific reference to Article 30 of the PPLM).

C. Bidding Documents

6. Use of Bidding Documents

9. National Standard Bidding Documents Goods and Works that have been approved for procurement in ADB-financed projects shall be used.

7. Language

10. Bidding documents may be prepared in other languages, but a copy of the bidding documents must be made available in English and submitted to ADB for review.

8. Bid Validity

11. Bidders shall be requested to extend the validity of their bids only under exceptional circumstances and the Executing or Implementing Agency, as the case may be, shall communicate such request for extension to all bidders before the date of expiry of their bids. When the procurement is subject to ADB's prior review, the Executing or Implementing Agency, as the case may be, shall obtain in a timely manner the prior written concurrence of ADB for the extension of the bid validity period.

9. Bid Evaluation

12. Evaluation and qualification criteria, and submission requirements, to be used in each bidding activity shall be clearly specified in the bidding documents. The evaluation of bids shall be done in strict adherence to the criteria specified in the bidding documents.

13. Negotiations with bidders shall not be undertaken before award of contract, except as provided in Paragraph 2.63 of ADB's Procurement Guidelines A bidder shall not be required, as a condition for award, to undertake obligations not specified in the bidding documents or otherwise to modify its bid as originally submitted.

14. At the same time that notification on award of contract is given to the successful bidder, the results of the bid evaluation shall be posted on a well-known freely accessible website (namely Mongolia's Ministry of Finance e-procurement website: www.e-procurement.mn) identifying the bid and lot numbers and providing information on the: (i) name of each bidder that submitted a bid; (ii) bid prices as read out at bid opening; (iii) names of bidders whose bids were rejected and the reasons for their rejection; and (iv) name of the winning bidder, and the price it offered, as well as the duration and summary scope of the contract awarded. The Executing Agency or Implementing Agency, as the case may be, shall respond in writing to unsuccessful bidders who seek explanations on the grounds on which their bids were not selected.

10. ADB Policy Clauses

15. A provision shall be included in all NCB works and goods contracts financed by ADB requiring suppliers and contractors to permit ADB to inspect their accounts and records and other documents relating to the bid submission and the performance of the contract, and to have them audited by auditors appointed by ADB.

16. A provision shall be included in all bidding documents for NCB works and goods

contracts financed by ADB stating that the Borrower shall reject a proposal for award if it determines that the bidder recommended for award has, directly or through an agent, engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in competing for the contract in question.

17. A provision shall be included in all bidding documents for NCB works and goods contracts financed by ADB stating that ADB will declare a firm or individual ineligible, either indefinitely or for a stated period, to be awarded a contract financed by ADB, if it at any time determines that the firm or individual has, directly or through an agent, engaged in corrupt, fraudulent, collusive, coercive or obstructive practices or any integrity violation in competing for, or in executing, ADB-financed contract.

D. Consultant's Terms of Reference for Project 1

51. Implementation of tranche 1 of the investment program will require 222.5 person-months of international and 749 person-months of national consultants with expertise in (i) urban infrastructure planning, design, tendering, construction, and operation and management; and (ii) institutional strengthening and capacity building in urban planning and management and service delivery. The consultants will provide the following services: (i) preparation of detailed engineering design, specifications, bill of quantities, and bidding documents, tendering and construction supervision for (a) urban and social infrastructure and access roads, (b) water supply and wastewater systems and the turnkey procurement for the water and wastewater operation improvement project for the Ulaanbaatar Water Supply and Sewerage Authority (USUG), and (c) district heating system including heating facilities, and heat distribution pipe networks; and (ii) institutional strengthening and capacity building covering (a) implementation of the capacity building and institutional support plan—support to improve urban planning and subcenter development, the implementation of institutional and regulatory reforms to improve the service providers, and to strengthen program implementation capacities; and (b) consulting services for community engagement and small and medium enterprise development. The outline consulting assignments are summarized below.

52. **The preparation of detailed engineering design, tendering, and construction supervision** will require 448.5 person-months of consultants—99.5 person-months of international and 349 person-months of national consultants and advisers. The consultants will have expertise in engineering design and construction supervision of heating systems, water supply and wastewater systems, urban roads and drainage, and public facilities; urban design and landscaping; geodetic engineering; and AutoCAD operations. The consultants will (i) carry out all surveys, field verification, studies, collection of data, and analyses needed to prepare the detailed engineering designs and contract documents for the above components, and for the turnkey procurement for the water and wastewater operation improvement project; (ii) prepare detailed engineering designs, technical specifications, bill of quantities, cost estimates, and tender documents for the above components; (iii) provide support to the program management office (PMO) for the supervision of construction and compliance with project designs and specifications; (iv) develop the project risk management procedures; (v) update and/or finalize required safeguards documents, including the resettlement plan, initial environment examination or environment impact assessment, and environment management plan in compliance with ADB guidelines and the relevant frameworks agreed between ADB and the Government of Mongolia; and (vi) act as resource persons for training and development activities.

53. **The implementation of the institutional strengthening and capacity building component 1: improved subcenter planning and development** will require 69 person-months of consultants—20 person-months of international and 49 person-months of national consultants and advisers. The consultants will have expertise in urban development finance, urban design and planning, real estate market analysis, land management, legal aspects, urban economics, micro-enterprise and housing finance, and project monitoring. The consultants will (i) support the MUB in the establishment the mechanisms and regulations for subcenter redevelopment; provide orientation and training of relevant staff engaged in the subcenter redevelopment process; (ii) closely monitor the planning and redevelopment process to ensure the integration of the current residents into the subcenter redevelopment plan; (iii) facilitate community and private development and financing entities consultations on the subcenter redevelopment concept and plans; (iv) formulate policy options, approaches, and tools and methods to facilitate the formulation of and communication on the subcenter plans and *ger* areas development; and (vi) develop appropriate urban planning/design regulations for *ger*

areas, Ger Area Development Agency, Ger Area Housing Project, and PMO staff on all aspects of urban planning and management; and (vii) act as resource persons for the training and development activities.

54. The implementation of the institutional strengthening and capacity building component 2: improved operations and management by service providers and institutional and regulatory reform will require 45 person-months of consultants—12 person-months of international and 33 person-months of national consultants and advisers. The consultants will have expertise in institutional and regulatory reform, public-private partnerships and transactions, public utility tariffs and economics, water and waste water operations and maintenance, and wastewater treatment plant operations and maintenance. The consultants will (i) assist USUG in the implementation of operation and maintenance (O&M) management improvements to control nonrevenue water, monitor installation of the new operational controls, and assist USUG in developing its business planning processes; (ii) assist the MUB (PMO) in the selection and contracting out the heating plant agency to operate the new heating facilities; (iii) provide on the job and formal training to USUG, OSNAAG, *kantor*, and possible heating agency staff on all aspects of program management; (iv) improve provisions in the OSNAAG management and the USUG performance contracts; (v) improve the revenue base of service providers; (vi) improve efficiency and effectiveness of service delivery; (vii) improve the capacity of Water Supply Regulatory Commission and the Energy Regulatory Commission; (viii) set clear policy directions based on comprehensive studies and recommendations to facilitate the Government of Mongolia's priority for the development state of the art environmentally friendly gas-fired district heating; (ix) supervise the implementation of the water and wastewater operational improvements; and (x) act as resource persons for the training and development activities.

55. The implementation of the institutional strengthening and capacity building component 3: strengthened program implementation capacity will require 97.5 person-months of consultants—33 person-months of international and 64.5 person-months of national consultants and advisers. The consultants will have expertise in the implementation of urban services projects, municipal engineering, urban and/or utility services finance, procurement, social safeguards and gender, environmental management, and financial management and accounting. The international and national financial experts to be engaged must have a recognized professional accountancy qualification, such as Chartered Accountant or Certified Public Accountant, and financial management and accounting. The consultants will (i) assist the MUB in staffing the PMO and adopting procedures and safeguards—involuntary resettlement and environment—which are consistent with the guidelines of ADB and the Government of Mongolia; (ii) establish detailed work schedules and the work load distribution for the PMO; (iii) provide on the job and formal training to PMO staff on all aspects of program management; (iv) set up and operationalize the financial management and accounting system for the investment program, including disbursements; (v) monitor and ensure the effective implementation of the resettlement plan, the environmental management plan, and other safeguard requirements; and (vi) act as resource persons for the training and development activities.

56. Community engagement and small- and medium enterprise development services will require 78 person-months of consultants—18 person-months of international and 60 person-months of national consultants and advisers. The consultants will have expertise in social and poverty analysis, community development, small- and medium- enterprises (SME) development, gender, communications, social mobilization, implement and monitor SAP and GAP, and legal aspects. The consultants will facilitate and guide (i) the capacity building of the CDCs and SME development council; (ii) consultations; (iii) the registration of the CDCs and/or SDCs, formalize

their organizational, project, and financial management systems, policies and procedures, and provide legal support to the CDCs; (iv) the implementation of the SME development plan; (v) the consultation and participation of women and other vulnerable community members; (vi) the CDCs to engage into community contracts with the construction companies; (vii) the information, education, and communication of the project; (viii) the CDCs and SDCs in mobilizing resources; (ix) the consultations with affected people to ensure smooth planning, land acquisition and resettlement negotiation, and implementation of project 1; (x) the monitoring of current residents integration into the redevelopment plan of the targeted areas; (xi) capacity building on O&M, estate management, community contracting, savings mobilization and micro-credit operations, and CDC engagement in the subcenter redevelopment process and (xii) provide technical guidance through formal and on-the-job training.

Basic Data for Tranche 2

Project Name: Ulaanbaatar Urban Services and Ger Areas Development Investment Program–Tranche 2	
Project Number: 45007-005	Approval Number:
Country: Mongolia	Executing Agency: Municipality of Ulaanbaatar
Project Procurement Classification: Category B	Implementing Agency:
Project Procurement Risk: Moderate	N/A
Project Financing Amount: US\$ 121,140,000 ADB Financing: US\$ 66,350,000 Cofinancing (ADB Administered): Non-ADB Financing: US\$ 54,790,000	Project Closing Date: 28 February 2022
Date of First Procurement Plan: 27 November 2016	Date of this Procurement Plan: 27 November 2016

A. Methods, Thresholds, Review and 18-Month Procurement Plan

1. Procurement and Consulting Methods and Thresholds

Except as the Asian Development Bank (ADB) may otherwise agree, the following process thresholds shall apply to procurement of goods and works.

Procurement of Goods and Works		
Method	Threshold	Comments
International Competitive Bidding for Goods	US\$ 2,000,000 and Above	Prior
National Competitive Bidding for Goods	Between US\$ 100,001 and US\$ 1,999,999	The first NCB is subject to prior review, thereafter post review.
Shopping for Goods	Up to US\$ 100,000	Post
International Competitive Bidding for Works	US\$ 5,000,000 and Above	Prior
National Competitive Bidding for Works	Between US\$ 100,001 and US\$ 4,999,999	The first NCB is subject to prior review, thereafter post review.
Shopping for Works	Up to US\$ 100,000	Post
Community Participation in Procurement for Works	Up to US\$ 1,000,000	Prior

Consulting Services	
Method	Comments
Quality- and Cost-Based Selection for Consulting Firm	Prior review; quality-cost ratio 90:10

2. Goods and Works Contracts Estimated to Cost \$1 Million or More

The following table lists goods and works contracts for which the procurement activity is either ongoing or expected to commence within the next 18 months.

Package Number	General Description	Estimated Value	Procurement Method	Review (Prior/ Post)	Bidding Procedure	Advertisement Date (quarter/year)	Comments
None							

3. Consulting Services Contracts Estimated to Cost \$100,000 or More

The following table lists consulting services contracts for which the recruitment activity is either ongoing or expected to commence within the next 18 months.

Package Number	General Description	Estimated Value	Recruitment Method	Review (Prior/ Post)	Advertisement Date (quarter/year)	Type of Proposal	Comments
T2-CS01	Detailed engineering design and supervision	4,960,000.00	QCBS	Prior	Q2 / 2017	FTP	Assignment: International Quality-Cost Ratio: 90:10 Comments: As proposed in the updated FAM
T2-CS02	Institutional strengthening and capacity building	3,660,000.00	QCBS	Prior	Q2 / 2017	FTP	Assignment: International Quality-Cost Ratio: 90:10 Comments: As proposed in the updated FAM

4. Goods and Works Contracts Estimated to Cost Less than \$1 Million and Consulting Services Contracts Less than \$100,000 (Smaller Value Contracts)

The following table lists smaller-value goods, works and consulting services contracts for which the activity is either ongoing or expected to commence within the next 18 months.

Goods and Works								
Package Number	General Description	Estimated Value	Number of Contracts	Procurement Method	Review (Prior/ Post)	Bidding Procedure	Advertisement Date (quarter/year)	Comments
None								

Consulting Services								
Package Number	General Description	Estimated Value	Number of Contracts	Recruitment Method	Review (Prior/ Post)	Advertisement Date (quarter/year)	Type of Proposal	Comments
None								

B. Indicative List of Packages Required Under the Project

The following table provides an indicative list of goods, works and consulting services contracts over the life of the project, other than those mentioned in previous sections (i.e., those expected beyond the current period).

Goods and Works							
Package Number	General Description	Estimated Value (cumulative)	Estimated Number of Contracts	Procurement Method	Review (Prior/Post)	Bidding Procedure	Comments
ASKG	Kindergartens for Bayankhoshuu, Dambadarjaa, Denjiin, and Selbe	5,290,000.00	1	ICB	Prior	1S1E	Prequalification of Bidders: N Domestic Preference Applicable: N Bidding Document: Small Works
BAHP	Bayankhoshuu heating plant	8,750,000.00	1	ICB	Prior	1S1E	Prequalification of Bidders: N Domestic Preference Applicable: N Bidding Document: Small Works Comments: Plant (design, supply, and installation)
BDSC	Sports complexes for Bayankhoshuu and Dambadarjaa	4,980,000.00	1	NCB	Post	1S1E	Prequalification of Bidders: N Domestic Preference Applicable: N Bidding Document: Small Works
CEP	Community engagement package	1,000,000.00	1	CPP	Prior		Comments: Includes 40 micro-projects
DARI	Dambadaarja road and associated infrastructure	7,310,000.00	1	ICB	Prior	1S1E	Prequalification of Bidders: N Domestic Preference Applicable: N Bidding Document: Small Works
DDCD	Community development service centers for Dambadarjaa and Denjiin	4,890,000.00	1	NCB	Post	1S1E	Prequalification of Bidders: N Domestic Preference Applicable: N Bidding Document: Small Works
DDEC	Electricity and telecommunication for Dambadaarja and Denjiin	3,420,000.00	1	NCB	Post	1S1E	Prequalification of Bidders: N Domestic Preference Applicable: N Bidding Document: Small Works
DDPK	Public parks for Bayankhoshuu and Denjiin	1,480,000.00	1	NCB	Post	1S1E	Prequalification of Bidders: N

Package Number	General Description	Estimated Value (cumulative)	Estimated Number of Contracts	Procurement Method	Review (Prior/Post)	Bidding Procedure	Comments
							Domestic Preference Applicable: N Bidding Document: Small Works
DEHP	Denjiin heating plant	8,750,000.00	1	ICB	Prior	1S1E	Prequalification of Bidders: N Domestic Preference Applicable: N Bidding Document: Small Works Comments: Plant (design, supply, and installation)
DERI	Denjiin road and associated infrastructure	8,760,000.00	1	ICB	Prior	1S1E	Prequalification of Bidders: N Domestic Preference Applicable: N Bidding Document: Small Works
HSSC	Heating supply secondary connections	2,000,000.00	1	NCB	Prior	1S1E	Prequalification of Bidders: N Domestic Preference Applicable: N Bidding Document: Small Works
SEHP	Selbe heating plant	11,120,000.00	1	ICB	Prior	1S1E	Prequalification of Bidders: N Domestic Preference Applicable: N Bidding Document: Large Works Comments: Plant (design, supply, and installation)

Consulting Services							
Package Number	General Description	Estimated Value (cumulative)	Estimated Number of Contracts	Recruitment Method	Review (Prior/Post)	Type of Proposal	Comments
None							

C. Non-ADB Financing

The following table lists goods, works and consulting services contracts over the life of the project, financed by Non-ADB sources.

Goods and Works				
General Description	Estimated Value (cumulative)	Estimated Number of Contracts	Procurement Method	Comments
Drainage for Bayankhoshuu, Dambadarjaa, and Denjiin (including ravine improvement in Bayankhoshuu)	3,130,000.00	1	NCB	
Water and wastewater equipment for Dambadarjaa and Denjiin	1,020,000.00	1	NCB	
Water supply network rehabilitation and expansion	5,000,000.00	1	ICB	
Wastewater network rehabilitation and expansion	3,100,000.00	1	NCB	
Water and wastewater secondary connections	2,500,000.00	1	NCB	

Consulting Services				
General Description	Estimated Value (cumulative)	Estimated Number of Contracts	Recruitment Method	Comments
None				

D. National Competitive Bidding

A. Regulation and Reference Documents

1. The procedures to be followed for national competitive bidding shall be those set forth in the Public Procurement Law of Mongolia of 1 December 2005, effective 1 February 2006, as amended in February 2007; July 2009; and February, June and December 2011 (hereinafter referred to as PPLM), with the clarifications and modifications described in the following paragraphs required for compliance with the provisions of the ADB Procurement Guidelines.

B. Procurement Procedures

1. Eligibility [Recommended standard provision]

2. The eligibility of bidders shall be as defined under section I of the Procurement Guidelines; accordingly, no bidder or potential bidder should be declared ineligible for reasons other than those provided in section I of the Guidelines, **as amended from time to time**.

3. Government-owned enterprises in Mongolia shall be eligible for projects only if they can establish that they: (i) are legally and financially autonomous; (ii) operate under the principles of commercial law; and (iii) are not dependent agencies of the Borrower, Beneficiary, Recipient Executing Agency and/or the Implementing Agency.

2. Participation of Foreign Bidders

4. International bidders from eligible countries of ADB shall be allowed to participate in local procurement and may not be denied participation due to nationality.

3. Preferences

5. No domestic preference shall be given for domestic bidders and for domestically manufactured goods.

4. Prequalification and Registration

6. Prequalification is discouraged for procurement contracts using NCB. When used, particularly for works contracts, an individual prequalification exercise is acceptable for each contract as is the use of a registration system (or approved standing list) of contractors based on criteria such as experience, financial capacity, and technical capacity. Foreign bidders from eligible countries must, however, be allowed to register and to bid without unreasonable cost or additional requirements.

5. Rejection of All Bids and Rebidding

7. All bids shall not be rejected or new bids invited without ADB's prior written concurrence.

8. No bid shall be rejected merely on the basis of a comparison with the estimated cost or budget ceiling without ADB's prior written concurrence (with specific reference to Article 30 of the PPLM).

C. Bidding Documents

6. Use of Bidding Documents

9. National Standard Bidding Documents Goods and Works that have been approved for procurement in ADB-financed projects shall be used.

7. Language

10. Bidding documents may be prepared in other languages, but a copy of the bidding documents must be made available in English and submitted to ADB for review.

8. Bid Validity

11. Bidders shall be requested to extend the validity of their bids only under exceptional circumstances and the Executing or Implementing Agency, as the case may be, shall communicate such request for extension to all bidders before the date of expiry of their bids. When the procurement is subject to ADB's prior review, the Executing or Implementing Agency, as the case may be, shall obtain in a timely manner the prior written concurrence of ADB for the extension of the bid validity period.

9. Bid Evaluation

12. Evaluation and qualification criteria, and submission requirements, to be used in each bidding activity shall be clearly specified in the bidding documents. The evaluation of bids shall be done in strict adherence to the criteria specified in the bidding documents.

13. Negotiations with bidders shall not be undertaken before award of contract, except as provided in Paragraph 2.63 of ADB's Procurement Guidelines A bidder shall not be required, as a condition for award, to undertake obligations not specified in the bidding documents or otherwise to modify its bid as originally submitted.

14. At the same time that notification on award of contract is given to the successful bidder, the results of the bid evaluation shall be posted on a well-known freely accessible website (namely Mongolia's Ministry of Finance e-procurement website: www.e-procurement.mn) identifying the bid and lot numbers and providing information on the: (i) name of each bidder that submitted a bid; (ii) bid prices as read out at bid opening; (iii) names of bidders whose bids were rejected and the reasons for their rejection; and (iv) name of the winning bidder, and the price it offered, as well as the duration and summary scope of the contract awarded. The Executing Agency or Implementing Agency, as the case may be, shall respond in writing to unsuccessful bidders who seek explanations on the grounds on which their bids were not selected.

10. ADB Policy Clauses

15. A provision shall be included in all NCB works and goods contracts financed by ADB requiring suppliers and contractors to permit ADB to inspect their accounts and records and other documents relating to the bid submission and the performance of the contract, and to have them audited by auditors appointed by ADB.

16. A provision shall be included in all bidding documents for NCB works and goods

contracts financed by ADB stating that the Borrower shall reject a proposal for award if it determines that the bidder recommended for award has, directly or through an agent, engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in competing for the contract in question.

17. A provision shall be included in all bidding documents for NCB works and goods contracts financed by ADB stating that ADB will declare a firm or individual ineligible, either indefinitely or for a stated period, to be awarded a contract financed by ADB, if it at any time determines that the firm or individual has, directly or through an agent, engaged in corrupt, fraudulent, collusive, coercive or obstructive practices or any integrity violation in competing for, or in executing, ADB-financed contract.

F. Consultants' Terms of Reference for Project 2

57. The preparation of **detailed engineering design, tendering, and construction supervision** will require 565 person-months of consulting inputs—150 person-months of international and 415 person-months of national consultants. The consultants will have expertise in engineering design and construction supervision of public facilities, heating systems, water supply and wastewater systems, urban roads and drainage, electricity and telecommunications, and public facilities; urban design and landscaping; geodetic engineering; and AutoCAD operations. The consultants will (i) carry out all surveys, field verification, studies, collection of data, and analyses needed to prepare the detailed engineering designs and contract documents; (ii) prepare detailed engineering designs, technical specifications, bill of quantities, cost estimates, and tender documents; (iii) provide support to the PMO for the supervision of construction and compliance with project designs and specifications; (iv) develop the project risk management procedures; (v) conduct engineering works and technical due diligence for the feasibility study for Project 3 to be prepared by PMO support consultants; and (vi) act as resource persons for technical training and development activities.

58. The **institutional strengthening and capacity development** for Tranche 2 and feasibility studies for Tranche 3 will require 424 person-months of consulting inputs—96 person-months of international and 328 person-months national consultants. Details are described below.

59. **Program management and implementation support** to PMO for project implementation and technical audit, financial management, compliance with ADB's Safeguard Policy Statement (2009) and Mongolia's safeguard requirements, institutional strengthening and reporting, capacity building support, preparing and formulating the feasibility study for Tranche 3, and other activities as appropriate. The consultants will (i) establish detailed work schedules and the workload distribution for the PMO; (ii) provide on-the-job and formal training to PMO staff on all aspects of program management; (iii) ensure the use of the financial management and accounting system for the investment program, including disbursements; (iv) monitor and ensure the effective implementation of the land acquisition and resettlement plan, environmental management plan, social action plan, and gender action plan; (v) act as resource persons for training and development activities; (vi) provide procurement assistance, bidding document review, contract bid review and evaluation, and contract management and disbursement; and (vii) update and finalize required safeguards documents, including the resettlement plan, initial environment examination or environment impact assessment, and environment management plan in compliance with ADB's guidelines and the relevant frameworks agreed between ADB and the Government of Mongolia; (viii) hire independent resettlement external monitoring consultants; and (ix) produce Tranche 3 feasibility studies and related loans documents at a quality standard acceptable for the MUB and ADB.

60. **Urban planning and subcenter development** for improved subcenter redevelopment policies, institutional structures, processes and regulations to support community and private sector-led redevelopment. Technical support will be targeted at the combined *Ger* Area Development Agency (GADA), *Ger* Area Housing Project (GAHP), Ulaanbaatar Housing Organization (NOSK), and PMO, and the facilitation of redevelopment by government, communities, and private sector. The component will assist in developing the long-term institutional arrangements for subcenter and *ger* areas redevelopment centered on appropriate regulations and standards for subcenter redevelopment. In addition, this assistance envisages that subcenter planning will be strengthened with increased participation and organizational and management capacity at the community level, and far greater involvement of the private sector.

The assistance should ensure that the MUB and local government staff, communities, and business groups are able to undertake innovative subcenter redevelopment, and manage the land readjustment process effectively.

61. The consultants will have expertise in urban development finance, institutional development, urban renewal and land readjustment, land management, regulatory and legal aspects of areas designated for redevelopment or renewal, developing appropriate standards for *ger* area improvements, urban economics, and micro-enterprise and housing finance. The consultants will (i) support the MUB in the review and refinement of the mechanisms and strengthen regulations for subcenter redevelopment areas; (ii) review the redevelopment process initiated under Tranche 1, especially the community-led block planning work to ensure the integration of the views of the residents into the subcenter redevelopment plan; (iii) facilitate community, private sector development, business, and financing entities involved in subcenter redevelopment; (iv) facilitate the preparation of subcenter business development plans for Tranche 2 and other subcenters; (v) strengthen an appropriate institutional structure for subcenter redevelopment that focuses on the redevelopment on a block-by-block basis within the context of the proposed merger of GADA, GAHP, and NOSK, and the subcenter business development plans that guide block redevelopment; and (vi) act as resource persons for the training and development activities, and provide orientation and training of relevant staff engaged in the subcenter redevelopment process and relevant aspects of urban renewal/redevelopment, land readjustment, block development, private sector involvement, housing finance and management.. The consultants will facilitate, prepare, and engage with the existing agencies—GADA, GAHP, NOSK, and PMO—to take up their new roles regarding subcenter redevelopment; and provide necessary inputs for Tranche 3 feasibility studies preparation.

62. **Community participation and micro, small- and medium-sized enterprise (MSME) development** to promote an inclusive subcenter development through active involvement and meaningful engagement of the communities and business owners of the areas. This community and MSME engagement and development component is envisaged to be relevant throughout the project period, including during detailed design and implementation phases of Project 2. It will ensure that the plans and projects developed out of the needs identified during the community consultations are respected throughout the project period and supported for the implementation by the local communities and MSME runners. This will be achieved through continuous consultation, mobilization, organization, and capacity building of the community organizations in identifying and analyzing their needs, developing their action plans, and actively engaging with the project team to build consensus on the investment projects. Further, the consulting services will facilitate better understanding by the vulnerable groups (i.e., women, children, and the very poor) on how they could be capacitated to optimally benefit from the project, as well as put in place mitigating measures to address possible negative impacts that may result from the investment projects. Since the families will pay for the costs of connection to water, heating, and sewerage system, economic development interventions will be a priority in this component to prepare the families to afford the connection costs. The SME development plan, which includes skills training for better employability, will be part of the capacity development and empowerment. The consultants will also provide necessary inputs for Tranche 3 feasibility studies preparation.

63. The **detailed design phase outputs** are to (i) mobilize and organize community members, as well as the business owners in the two subcenters, into primary groups, block, cluster and subcenter community development councils (CDCs), and business councils to support the development of the land use plan, local development plan, and investment plan of

the project; (ii) facilitate and support the block, khoroo and subcenter CDCs and business councils identify and prioritize their needs and develop their respective community action plans (CAPs) or SME development plans as basis for the investment plans that will be supported by the project; (iii) facilitate the CDCs' and business councils' continuous engagement with the project team to build consensus concerning overall strategy of urban functions development and ensure that the overall strategy consider the needs and constraints of the women, children, elderly, the very poor, and the differently-abled persons; (iv) facilitate the skills mapping (current and skills of interest) of the community members and matching with the demand of the SMEs leading to the SME development plan, as well as linking the community groups with training institutions providing vocational and technical skills training; and (v) sustain awareness and support to the project by different stakeholders.

64. The **implementation phase outputs** are to (i) facilitate the linkage of trained community members with institutions for employment to improve incomes and assist to start savings movement to prepare them to eventually afford connection costs to basic services; (ii) facilitate further capacity building of the CDCs/business councils to be viable organizations and meaningfully engage in the project and ensure that the project reflect other needs for small access infrastructures for the communities included in their CAPs and opportunities for women to substantively get involved in the project and other activities in the subcenter; and (iii) facilitate proper monitoring and evaluation of the different aspects of this components, which will inform policy and program reforms in the government.

VII. SAFEGUARDS

A. Safeguards for Project I

65. **Environment.** Project 1 was classified as category B for environment by the Asian Development Bank (ADB) as it will not have significant and/or irreversible negative environmental impacts. An initial environmental examination (IEE), including environmental management plan (EMP) for project 1, as well as an environmental assessment and review framework (EARF) for the entire multitranche financing facility (MFF) investment program, have been prepared. The EARF provides guidance for the selection, screening and categorization, environmental assessment, and preparation and implementation of environmental safeguard plans of projects and subprojects prepared after approval of the investment program to comply with ADB's Safeguard Policy Statement (SPS) (2009) and the Law on Environmental Impact Assessment of Mongolia (2012). The IEE, including a comprehensive EMP for project 1, was prepared by the project preparatory technical assistance consultants on behalf of the Municipality of Ulaanbaatar (MUB). Domestically, project 1 was subject to general environmental impact assessment by the Ministry of Environment and Green Development (MEGD). The conclusion from the general environmental impact assessment required the preparation of a detailed environmental impact assessment (DEIA) for each subcenter, expected to get approval from MEGD in October 2013.

66. **Institutional responsibilities.** The EARF and EMP specify the roles and responsibilities of institutions (including the MUB, the program management office [PMO], project units, contractors, and environment consultants) in overall environmental management.

67. The MUB as executing agency has the overall responsibility for compliance with EARF, EMPs, and IEEs. The PMO will handle day-to-day activities under the program. The PMO will ensure compliance with assurances, including preparation, finalization, and implementation of the EMP for each tranche. It will be staffed with at least one environmental safeguard staff (an environmental engineer/scientist). The PMO environmental safeguard staff will be responsible for the coordination and supervision of the implementation of the EARF and project 1 EMP, including (but not limited to) (i) updating IEE and EMP after detailed project design for project 1 and subsequent projects; (ii) overseeing incorporation of EMP recommendations into the bidding documents; (iii) ensuring the procurement of environmentally responsible contractors; (iv) ensuring that DEIA approval by MEGD has been secured prior to the awarding of civil works contract; (v) setting up of baseline ambient air quality, noise and vibration levels, ground- and surface water quality, and baseline in concerned *khoroos*²⁵ for subsequent projects; (vi) setting up, coordinating, and reporting on the grievance redress mechanism (GRM, see below); (vii) monitoring contractors to ensure adherence to the project 1 EMP and the contractor EMPs; (viii) preparing monthly reports on project EMP implementation to the PMO; (ix) coordinating consultation with local stakeholders as required, informing them of imminent construction works, updating them on the latest project development activities, GRM, etc.; (x) supporting the environment consultants in conducting training, EMP compliance reviews, annual reporting, etc.; and (xi) coordinating the preparation of IEEs, including EMPs, for subsequent tranches.

68. Contractors will be required to formulate contractor EMPs with complete management systems for adverse impacts, e.g., dust control, noise control, traffic management, addressing as minimum the requirements of the project 1 EMP. The contractor EMPs will be reviewed and

²⁵ Same with *kheseq*, lowest administrative structures in the community.

cleared by the PMO, and by the MEGD, as necessary. To ensure that the contractors comply with the project 1 EMP provisions, the PMO will prepare and provide the following specification clauses for incorporation into the bidding procedures: (i) a list of environmental management requirements to be budgeted by the bidders in their proposals; (ii) environmental clauses for contractual terms and conditions; and (iii) the full project 1 EMP and detailed environmental impact assessments (DEIAs) in Mongolian.

69. In compliance with the agreed upon procurement plan, the PMO will procure the services of environment consultants to provide support in (i) project preparation including updating the project 1 EMP; (ii) training; (iii) quarterly environmental quality monitoring (air, surface and ground water, and noise); (iv) annual project EMP implementation reporting; (v) identifying environment-related implementation issues and necessary corrective actions; and (vi) undertaking site visits as required.

70. **Environment GRM.** Environment safeguards related complaints or disputes will be handled in accordance with the GRM established for the investment program and project 1. The GRM will be linked to the Citizen Service Center of the Office of the Mayor of Ulaanbaatar (established in 2012 by virtue of Mayor's Ordinance A/675 for a centralized system of receiving, referring, solving, and responding to public grievances in the Capital City). The environment specialist of the PMO will coordinate the environment GRM. The GRM is defined in the EMP

71. **Information disclosure.** In compliance with the SPS, environmental information related to tranche 1 components will be disclosed as follows: (i) the environmental impact assessments (EIAs) or IEEs for each tranche will be disclosed on ADB's project website (www.adb.org), and will be available for consultation in the PMO office; (ii) DEIAs approved by the Ministry of MEGD will be disclosed on the MEGD website; and (iii) annual EMP implementation report will be available at www.adb.org.

72. **Resettlement.** The land acquisition and resettlement plans (LARPs) for Selbe and Bayankhoshuu for Project 1 have been updated and implementation is ongoing. MUB and PMO are cooperating more closely to ensure that the LARPs will be implemented and monitored satisfactorily. The resettlement framework, applicable to all subprojects implemented under the investment program, has been reviewed and updated.²⁶ It now reflects the MUB's recent regulation, a more harmonized grievance handling system based on existing practice, new institutional arrangements, and other provisions derived from the updated LARPs from Project 1. No principle and entitlement in the original framework has been downgraded. All safeguards documents will be reviewed and concurred by ADB, disclosed to the affected people and communities, and posted on the ADB and MUB websites. The PMO has adequate staff and has demonstrated capacity for grievance redress, social mobilization, and awareness creation. Trainings related to safeguards will continue to be provided as specified in the LARPs. Social safeguards monitoring and reporting to ADB will be continued on a semiannual basis.

73. **Institutional arrangements.** The executing agency and implementing agency will be the Municipality of Ulaanbaatar. The vice mayor in charge of urban development and investment of the MUB will be responsible for coordinating the program implementation. A program management office (PMO) has been established under the vice mayor in charge of Infrastructure and Ger Districts Development Department. The PMO director will be the vice mayor in charge of the urban development and investment. The PMO will be operational and

²⁶ Review and updating of the resettlement framework is stipulated in the Framework Financing Agreement, Schedule 5, para. 3.

fully staffed by September 2013. External staff will be recruited as needed, including specialists in land acquisition and resettlement (LAR). The PMO will also be assisted by a technical assistance consultant team who will be engaged—as part of the capacity building/institutional support to provide advisory and capacity building services to the executing agency and the PMO. LAR process will be supported by community engagement consulting services to ensure smooth negotiations with the affected people. Resettlement plan implementation activities will also be overseen by a resettlement plan implementing committee (RPIC). The RPIC will be comprised of key government officials at the district and *khoroos* levels, and other relevant²⁷ government departments and agencies from the MUB, including representatives of Ulaanbaatar property relations department, the PMO, and representatives of affected entities, women, and NGOs. The RPIC will be formed at the start of subproject design so that affected entities' input may be incorporated into the design. This will also ensure that key government institutions including local governments are involved and their coordination is ensured in finalizing the resettlement plans for tranche 1, preparing the resettlement plans for subsequent tranches and carrying out LAR implementation tasks.

74. The PMO will ensure compliance with assurances, including safeguards and preparation, finalization, and implementation of the resettlement plan for each tranche. The resettlement plans for tranche 1 were prepared based on feasibility design; the information it contains is preliminary and estimates only. During the detailed design, the two resettlement plans will be finalized based on a complete census, updated detailed measurement survey, latest replacement rates, and further consultation with and participation of affected persons. The impacts of the subprojects under tranche 1 that are not covered by the two resettlement plans prepared for tranche 1 will be addressed in accordance with the provisions of ADB Operations Manual F1 (para. 51) for subprojects prepared after Board approval and in accordance with the Resettlement Framework. The LAR impacts of these subprojects will be insignificant. The time for implementation of the resettlement plan for tranche 1 shall be scheduled as per LAR procedures and integrated with the project civil works implementation schedules. All activities related to LAR must be implemented in a manner that ensures that compensation and other entitlements are provided to affected persons prior to their displacement and to commencement of civil works.

75. Training workshops will be provided for the staff of PMO, *khoroos*, and other government officials involved in LAR activities, including the members of RPIC, representatives of the affected persons and other stakeholders about the resettlement plan provisions and implementation arrangements, as well as the principles and safeguards requirements of ADB resettlement policy, the agreed resettlement framework and legislation of Mongolia. The training will also highlight the differences between the provisions of the ADB's SPS (2009) and the Mongolian laws and explain how to ensure that ADB's SPS (2009) requirements are met.

76. **Land acquisition and resettlement grievance redress mechanism.** A land acquisition and resettlement committee (LARC) for the Bayankhoshuu and Selbe Subcenter sewer main collector pipes subprojects was established on 6 March 2015 by Resolution No. A/175 of the Mayor of MUB. With this resolution a Working Group (WG) for the Implementation of the LARP was established as well. The implementation of the LARP will be the responsibility of the working group under the guidance of LARC and with close coordination and support of the PMO. The same institutional arrangements will be adopted for Tranche 2. On complaint handling, a grievance redress mechanism has been established for Project 1 and a similar mechanism will be adopted for Project 2.

²⁷ Agencies responsible for urban roads, water, sewerage, power, etc.

77. **Monitoring.** Internal monitoring will be carried out routinely by the PMO and monthly reports to the city will be submitted. The results will be communicated to ADB through the quarterly project implementation reports.²⁸ The PMO is responsible for managing LAR implementation and taking actions to handle the day-to-day issues. At the end of each tranche, the PMO will prepare a resettlement plan completion report and submit to ADB. The PMO is responsible for engaging an independent local consulting firm or nongovernment organization or a qualified individual expert as an external monitor to investigate and assess resettlement plan implementation in each tranche. External monitoring will be carried out semiannually during the implementation of the resettlement plan, and its results will be reported to the MUB and ADB in semiannual reports at the end of each input. The external monitor will carry out a post-implementation evaluation(s) of the resettlement plan about 1 and 2 years after completion of its implementation. The compelling reason for this evaluation is to ascertain if the objectives of the resettlement plan have been attained or not. In case of a shortfall, the external monitor will recommend remedial measures.

78. **Budget.** The resettlement plan for each tranche under the investment program will contain a detailed budget section with a table of costs for all compensation and other entitlement expenses as well as administration costs and other related expenses, plus 10% for contingencies. Finances for implementation of resettlement plans will be provided by the MUB through the PMO from MUB funds. The MUB and the PMO are responsible for timely allocation of funds needed to implement the resettlement plan for each tranche. Allocation will be reviewed semiannually based on the budget requirements indicated in the resettlement plans.

79. **Indigenous peoples.** The project 1 is classified as category C for indigenous peoples as there are no ethnic minority communities in the project area. No further action is required. Subsequent tranches will also be screened and categorized. It is anticipated that they will likely be category C as well. If ADB's indigenous peoples policy requirements are triggered, an ethnic minority development plan will need to be prepared by the PMO and submitted to ADB for approval and then implemented accordingly.

B. Safeguards for Project 2

80. **Environment.** Project 2 is classified as category B for environment. The IEE and EMP of Project 2 was prepared based on the DEIA for Project 2 pursuant to the requirements of the Mongolian Law on Environmental Impact Assessment (2012). Public consultation meetings that identified environmental issues and concerns, and appropriate impact mitigations, were conducted in August 2016 to introduce Project 2 to affected households and stakeholders in Dambadarjaa and Denjiin. The EARF was updated as part of detailed design of Project 1. The updated EARF continues to provide guidance for screening and categorization, environmental assessment, and preparation and implementation of environmental safeguards for project subcomponents to comply with ADB's SPS (2009), and the Mongolian Law on Environmental Impact Assessment (2012). The first environmental monitoring report for Project 1 was prepared in March 2016. Parts of the EMP of Project 1 were updated in August 2016.

²⁸ As and when necessary to report significant progress, implementation issues, or status of earlier identified problems.

81. The IEE of Project 2, including a comprehensive EMP, was prepared based on the current feasibility design of Project 2. The IEE is prepared by MUB and will be disclosed to the ADB website. Potential environmental impacts which are largely site-specific and short-term disturbances, arising from the construction of the different project subcomponents, are insignificant and reversible. Construction-related disturbances such as noise, dust, soil erosion, surface water sedimentation, solid and liquid waste pollution, worker camp disturbances, reduced local access, traffic safety, and worker and public safety can be managed with standard construction practices and guidelines.

82. The examination of the feasibility design of Project 2 indicates the following major benefits: (i) households and businesses will have better access to a piped potable water supply; (ii) the infrastructure to collect and convey domestic waste away from *ger* homes and businesses for proper treatment will significantly increase environmental quality (e.g., soil and groundwater) thereby reducing sickness and disease, and improve overall quality of life; (iii) improved access to heating system will lead to better quality of life and significantly cause major improvements to ambient winter air quality from reductions in smog and the critical health impairing PM_{2.5}²⁹ from individual household coal burning; (iv) potential removal or significant reduction in the use of coal-fired cooking stoves for heating will significantly improve indoor air quality; (v) the physical and social service support facilities to be constructed will improve the quality of life and reduce domestic stress; (vi) near-term improvements in air quality, surface water quality, and soil quality in Project 2 subcenters by providing existing social, civil, and some commercial buildings with access to new water and wastewater utility networks; and (vii) the new urban parks, and the “green” kindergarten classrooms will create greenspace, promote green development thinking, and complement and support densification.

83. The PMO/MUB will be responsible for the overall implementation and compliance with the EMP, including inspection, monitoring, reporting, and corrective actions or measures. Environmental management is supported by loan assurances and capacity development and institutional strengthening activities under the project. The PMO/MUB conducted meaningful consultation with potentially affected people and project beneficiaries. Environmental complaints will be handled in accordance with the GRM developed for the project.

84. **Resettlement.** The project is category A for resettlement due to significant land acquisition and resettlement impacts. MUB has prepared one LARP for the four subcenters based on the feasibility study report. During detailed design, it will be updated based on census and detailed measurement survey. The resettlement framework, applicable to all subprojects implemented under the investment program, has been reviewed and updated³⁰. It now reflects the MUB’s recent regulation, a more harmonized grievance handling system based on existing practice, new institutional arrangements, and other provisions derived from the Updated LARPs from Project 1.

85. The LARP has been prepared in accordance with legislative framework of Mongolia, ADB’s SPS (2009), and agreed RF. All affected entities are eligible for entitlements, as stipulated in the ADB policy, including owners, possessors, users, legalizable occupants, non-titled occupants, and lessees. The eviction of unlicensed affected persons is a violation of the ADB policy. All affected persons who are unlicensed occupants of lands designed for the land allocation are treated as legalizable. The lost land and properties will be compensated based on

²⁹ PM_{2.5}, particulate matter smaller than 2.5 micrometers.

³⁰ Review and updating of the resettlement framework is stipulated in the Framework Financing Agreement, Schedule 5, paragraph 3.

the principle of full replacement cost. The project will adopt a negotiated land acquisition and resettlement practice involving contractual agreements negotiated between the affected persons and the Land Administration Department of MUB on the basis of the Civil Code of Mongolia. The grievance redress established for Project 1 will be adopted for Project 2.

86. The estimated land acquisition and resettlement impact includes 555 entities (residential and commercial) and 2,156 persons who are expected to be affected by the developments in Dambadarjaa, Denjiin, Selbe and Bayankhoshuu subcenters.

87. **Indigenous peoples.** The project is indigenous peoples category C. The project components are all focused on mid-*ger* urban areas of Ulaanbaatar. These areas have been in existence for some time and are very heterogeneous in terms of residents' socioeconomic status. The project investments will benefit all residents. No specific communities of ethnic minorities have been identified.

88. **Prohibited investment activities.** Pursuant to ADB's SPS (2009), ADB funds may not be applied to the activities described on the ADB Prohibited Investment Activities List set forth at Appendix 5 of the Safeguard Policy Statement (2009).

VIII. GENDER AND SOCIAL DIMENSIONS

89. This section describes the required actions for gender and social dimensions, other than social safeguards. A poverty and social analysis (PSA), including gender analysis was undertaken during the project preparation phase in accordance with ADB guidelines on gender and social dimensions. The PSA included a review of secondary data and collection of primary data through stakeholders' consultations, focus group and community discussions, and key informant interviews. The PSA assisted in the design of the various subcomponents to ensure they are socially inclusive and implemented with a high degree of community participation. The program is expected to improve the living conditions of population in *ger* areas of Ulaanbaatar by developing a network of livable, competitive, and inclusive subcenters in Ulaanbaatar's *ger* areas.

90. **Key issues.** In 2014, 21.6% of the Mongolian population lived below the national poverty line. The poverty level was much higher in rural areas (27%) than the urban (18%). However, poverty reduction was slower in urban areas, especially in Ulaanbaatar (16.4%) where poverty declined by 3% during 2012–2014 compared to 11% between 2010 and 2012. Therefore, the urban areas continue to have the largest share of the poor in Mongolia. Gross domestic product has fallen from 17.5% in 2012 to 2.3% in 2015 driving up unemployment to 11.6% (but unofficially much higher). Ulaanbaatar has an estimated population of 1,445,000 by the end of 2016 based on a 2015 population of 1,396,500 growing at a rate of approximately 3.5%. This is more than double the national growth rate of 1.5% and higher than the overall urbanization rate of 2.8%. About 60% (800,000) of Ulaanbaatar's population live in unplanned, underserved informal settlements without water or sewerage connections, poor access, highly polluted environment, limited access to social facilities, and limited employment opportunities. Direct beneficiaries of the project include almost 25,000 residents living in the 4 subcenters targeted by Tranche 1 and 2 investments. Direct beneficiaries will also include those utilizing transitional housing, kindergarten, and business incubator components. Elderly and persons with disabilities will also directly benefit from targeted improvements to inclusiveness and access to all project facilities. Indirect beneficiaries are about 500,000 people living in the project districts that will have better access to job opportunity, housing and public facilities, and can be extended to the population of Ulaanbaatar City because of the overall impact of the project on the city pollution and urban development.

A. Social Development Action Plan for Project 1

91. The social development action plan (SDAP) includes measures to (i) facilitate and support the subcenter community development council (CDC) and small- and medium-enterprise development council (SDC); (ii) identify and prioritize CDC and SDC needs and sustain awareness and support to the project by the different stakeholders; (iii) mobilize and organize community members as well as the business owners in the two subcenters affected into subcenter CDC and SDC to support the development of the land use plan, local development plan, and investment plan of the project; (iii) build consensus concerning overall strategy of urban functions development; (iv) facilitate the skills mapping of the community members and matching with the demand of the small- and medium-enterprises as well as linking the community groups with training institutions to provide vocational/technical skills training; and (v) facilitate proper monitoring and evaluation of the different aspects of these components.

92. The following detailed SDAP activities will be undertaken to sustain the involvement of the community members and organized groups (CDC and SDC) in the detailed design and

implementation phases of the project (Table 1). The resources for implementation of SAP are part of project component 4 (institutional strengthening and capacity development).

Table 1: Detailed Design and Implementation Phases of Project 1

Activity	Target /Indicators	Responsible Entity	Timeline
I. Project Preparation Phase			
Conduct series of consultative meetings and information campaign at the <i>kheseg</i> level on (i) project objectives and investments, and (ii) redevelopment options and preferences	20 meetings conducted organized with primary groups, CDCs and SDCs attended by 50% women SAP and SDC development plans reflect the needs of the communities and considered in the preliminary design of the physical infrastructures Documentation of meeting minutes	Staff consultant PMO-MUB CDCs, <i>kheseg</i> and <i>khoro</i> leaders	Q2 2013— Q1 2014
II. Detailed Design Phase			
Continuing organizational formation and strengthening of primary groups, community development councils, SME development councils, and savings groups	90 primary groups in Bayankhoshuu and 70 in Selbe organized and functioning with by-laws, policies, systems, and plans 50% women members for each groups and CDCs 5 <i>khoro</i> level CDCs and 1 subcenter CDC organized and functioning with by-laws, policies, systems, and plans Documentation of organizational strengthening activities and training/OJT modules Savings groups formed and functioning with policies, systems, and ongoing micro-credit project	Staff consultant PMO-MUB CDCs, <i>kheseg</i> and <i>khoro</i> leaders	Q1 2013— Q4 2014
Conduct series of consultations on the scope and technical/engineering design of proposed water supply, sanitation, sewerage, heating facilities, and affordable apartments	15 meetings conducted, attended by 50% women Final detailed design of proposed projects confirmed by the beneficiaries, women, elderly, differently-abled persons, and affected persons/families	PMO-MUB, staff consultant CDCs, primary groups, <i>kheseg</i> and <i>khoro</i> leaders	Q1 2014— Q3 2014
Conduct consultations with households, businesses, and public institutions affected by the construction/right-of-way requirements for project 1	24 meetings in both subcenters attended by all affected stakeholders Documentation of meeting/consultation minutes	PMO-MUB, staff consultant CDCs, <i>kheseg</i> and <i>khoro</i> leaders	Q1 2014— Q3 2014
Comprehensive IEC campaign on the final redevelopment schemes, land valuation, engineering designs, resettlement plan, etc.	Comprehensive IEC plan developed Printed IEC materials distributed (i.e., project leaflets/brochures on FAQs, posters, etc.) 16 IEC campaign meetings in both subcenters conducted; documentation of meeting minutes	PMO-MUB, staff consultant <i>Kheseg</i> and <i>khoro</i> CDC leaders	Q4 2013
Setting up of grievance or feedback mechanisms in the community	System for resolution of grievance/feedback established CDCs function as the grievance committee with guidelines on handling grievances	PMO-MUB, staff consultant <i>Kheseg</i> and <i>khoro</i> CDC leaders	Q3 2013
Preparation and finalization of the proposed SME development plan	16 meetings of SDC with CDCs in both subcenters Skills survey and demand mapping completed and documented	PMO-MUB, staff consultant <i>Kheseg</i> and	Q2 2013— Q1 2014

Activity	Target /Indicators	Responsible Entity	Timeline
	Documentation of meeting minutes 50% women members actively participating	<i>khoro</i> CDC leaders	
Capacity building of the CDCs on how to engage meaningfully in the subcenter redevelopment process	Legal support for the CDC to guide them in their engagement in the SRA Terms of reference of the CDCs in the SRA are well-defined and understood by them Curriculum/training design for CDC engagement in the SRA Documentation of capacity building approach and modules	PMO-MUB, staff consultant <i>Kheseg</i> and <i>khoro</i> CDC leaders	starting Q1 2014
III. Implementation/Construction Stage			
Facilitate consultative meetings for resettlement/relocation	20 meetings in both subcenters attended by all affected stakeholders	PMO-MUB, staff consultant CDC leaders	Q4 2013—Q2 2014
Facilitate and support implementation of SME development plan	1,000 community members trained so various skills and partnership with SMEs and other institutions are developed for employment or contracted for goods and services Trained community members linked with the business incubators for services like work space, business advisory, etc. Documentation of process and results—number of (i) employed, (ii) those who entered into self-employment, (iii) recorded increases in income, and (iv) of employees generated	PMO-MUB, staff consultant <i>Kheseg</i> and <i>khoro</i> CDC leaders	Q4 2013–Q1 2015
Conduct community-led monitoring of construction works for quality control	System, tools, and templates developed and used for community-led construction project monitoring Trained CDCs with structure on construction project monitoring	PMO-MUB, staff consultant <i>Kheseg</i> and <i>khoro</i> CDC leaders	Q1 2014—Q2 2014
Facilitate and support consultations on the implementation of relocation plan from temporary housing to new apartments	Number of households provided with transfer assistance to new apartments	PMO-MUB, staff consultant <i>Kheseg</i> and <i>khoro</i> CDC leaders	2015
Continuous capacity building for the CDC and primary groups	20 capacity building trainings/workshops and learning exchange conducted in both subcenters Training designs of capacity building interventions on leadership, team building, community contracting, participation in the SRA, contract negotiations, business planning, savings movement, etc. Registration of the CDCs as NGOs with the State Registration Authority of the Ministry of Justice	PMO-MUB, staff consultant <i>Kheseg</i> and <i>khoro</i> CDC leaders	Q1 2014–Q3 2014
Documentation of good practices, lessons learned, feedback, complaints, or grievance issues	Documented good practices, lessons learned, and community feedback shared with all stakeholders and reflected in major reports	PMO-MUB <i>Kheseg</i> and <i>khoro</i> CDC	starting Q1 2014

Activity	Target /Indicators	Responsible Entity	Timeline
	Complaints and grievance issues documented and resolved	leaders	
IEC program for (i) basic hygiene practices, (ii) water conservation, (iii) community involvement on the <i>ger</i> redevelopment, and (iv) SME development program, etc.	IEC materials developed and disseminated	PMO-MUB <i>Kheseg and khoroo CDC</i> leaders	Q3 2014
Capacity development activities for CDCs or small neighborhood associations for redeveloped lots on (i) O&M of new facilities, (ii) estate management, etc.	Curriculum on O&M and estate management developed and implemented 4 trainings on O&M, etc. conducted and documented	PMO-MUB <i>Kheseg and khoroo CDC</i> leaders	Q3 2014– Q4 2014
Conduct series of consultations on the scope and technical/engineering design and implementation arrangements for proposed social and environmental projects (i.e., kindergarten, clinics, bus station, market, <i>khoroo</i> building, vocational training centers, public spaces/open parks)	Consultation plans and minutes documented Designs reflect the needs of the vulnerable groups Implementation arrangements reflect inputs of the CDCs and community members especially the women and other vulnerable groups	PMO-MUB <i>Kheseg and khoroo CDC</i> leaders	2015 onwards
Documentation of good practices, feedback, complaints, or grievance issues and lessons learned	Good practices and lessons learned documented and complaints and grievance issues resolved	PMO-MUB, staff consultant	starting Q3 2014
Documentation of schemes/approaches that worked (good practices), feedback, lessons learned, complaints, or grievance issues	Documented good practices and lessons learned on the approach shared with all stakeholders Number of complaints and grievance issues documented and resolved	PMO-MUB, staff consultant CDCs, <i>kheseg</i> and <i>khoroo</i> leaders	starting Q2 2013 to end 2018
Conduct community-based monitoring and evaluation of new basic infrastructure and services for the community empowerment and SME development	Community empowerment and SME development component developed and agreed upon by all stakeholders Monitoring reports and final evaluation reports done according to quality standards of ADB and submitted on time	PMO-MUB, staff consultant CDCs, <i>kheseg</i> and <i>khoroo</i> leaders	starting Q4 2014 to end 2018 2015

ADB = Asian Development Bank, CDC = community development council, FAQ = frequently asked questions, IEC = information, education, and communication, MUB = Municipality of Ulaanbaatar, NGO = non-government organization, O&M = operation and maintenance, OJT = on-the-job training, PMO = program management office, SAP = social action plan, SME = small- and medium-enterprise, SDC = small- and medium-enterprise development council, SRA = subcenter redevelopment authority.

Source: Asian Development Bank.

93. **Resources.** A team of consultants will be fielded to implement the assistance. It is estimated that a total of 78 person-months will be required—18 person-months of international and 60 person-months of national consultants and advisers will be required. The team will work closely with all relevant MUB stakeholders, particularly the PMO. All team members are expected to act as resource persons for the training and development activities. International and national positions required are in Table 2. The total cost of the consulting services package is estimated at \$0.7 million over a 3-year timeframe from 2014–2016.

**Table 2: Community Engagement and Small- and Medium-Enterprise Development
—International and National Consultants**

No.	International Positions	Person-months	No.	National Positions	Person-months
1	Social, poverty, and community development specialist	10	1	Community development/gender specialist	4
2	Small- and medium- enterprise development specialist	3	2	Communications specialist	10
3	Gender specialist	3	3	Social mobilizers	36
4	Communications specialist	2	4	Legal specialist	10
	Total	18		Total	60

Source: Asian Development Bank.

94. **Implementation and monitoring.** The PMO with the assistance of the project consulting service (see FAM Section VI, Project Consulting service on Institutional Strengthening and Capacity Building Component 1, on community engagement and SME development) are responsible for the implementation of SAP and gender action plan (GAP), and reporting on progress and achievements of the project. Key indicators from both plans will be included in the project performance management system. The impact analysis will include the effectiveness of CDCs and SDCs, SME development and gender dimensions of project, and social issues.

B. Social Development Action Plan for Project 2

95. The social development action plan (SDAP) has been prepared for Project 2 and is presented in the Table 7 of this section. It sets out activities (i) for the mitigation of adverse impacts and risks identified in the course of the PSA of the project, and (ii) to help maximize the benefits to be derived from the project. Actions include (i) targets for employment of local labor, including the poor and women during construction and operation; (ii) road safety awareness education program for the residents and school children; (iii) on-going, inclusive information, communication and education program for all residents to inform about improvements, benefits, risks and impacts of the project; (iv) public participation in road, water supply, and socioeconomic services' improvements; and (v) citizens' feedback mechanism for assessing the effectiveness of service provision. Its implementation will be monitored through the project performance management system, project progress reports, and ADB supervision missions.

96. To address the risk of spread of HIV/AIDS, the project requires (i) inclusion of clauses on HIV/AIDS and other communicable disease into contract bidding documents; (ii) conduct of public health and HIV/AIDS prevention education to the civil works contractors; (iii) establishment of health measures for construction workers (e.g., setting up a temporary infirmary, using local medical resources); and (iv) conduct of diverse publicity activities on HIV/AIDS (e.g., brochures, posters and picture albums).

97. In addition to SDAP, a CAP has been developed in the frame of Project 2 to ensure smooth implementation of the project through the communities' mobilization and institutionalization. The main objective of the CAP is to make sure that the communities will benefit from the project and take the co-ownership of the subcenter development. The project 2 CAP follows the project 1 CAP logic. It envisages activities aimed at sustaining the involvement of the community members and organized groups (CDC and SDC) for subcenters and for small- and medium-enterprise business development.

C. Community Action Plan

98. The following detailed activities will be undertaken in the project for community and local business owners' mobilization and engagement in the detailed design and implementation phases of the project.

Table 3: Community Action Plan

Activity	Targets/Indicators	Indicative Budget/ Cost in \$	Responsible Entity	Timeline
I. Detailed design phase				
1. Conduct series of consultative and information dissemination meetings at the <i>khoro</i> ^a level on (i) project objectives and investments, (ii) redevelopment options and preferences, and (iii) resettlement and other issues, as required	<ul style="list-style-type: none"> Conducted 40 meetings with organized primary groups, CDCs, and business councils Consultation meeting minutes 	10,000	<ul style="list-style-type: none"> PMO CMT DDPTs CDCs and primary groups 	2017–2021
2. Conduct series of consultations on the scope, technical and engineering design, and implementation arrangements for the proposed infrastructures	<ul style="list-style-type: none"> Consultation plans and documentation of minutes CAP and MSME development plans reflect the needs of the communities and businesses and considered the design of the proposed infrastructures Designs reflect the needs of communities and businesses, especially the vulnerable groups Final detailed design of proposed projects is confirmed by affected persons and families, beneficiaries, elderly, persons with disability, and women Implementation arrangements reflect inputs of the CDCs and community members, business councils and their members, and women and other vulnerable groups 	25,000	<ul style="list-style-type: none"> PMO CMT DDPT Business councils, CDCs, and primary groups 	2017–2020
3. Conduct consultations with households, businesses, and public institutions affected by construction and right-of-way requirements for the project	<ul style="list-style-type: none"> 24 meetings in both subcenters attended by all affected stakeholders Consultation meeting minutes 	5,000	<ul style="list-style-type: none"> PMO CMT DDPT Land resettlement team CDCs and primary groups 	2017–2021
4. Comprehensive IEC campaign on the final redevelopment schemes, land valuation, and engineering (i.e., project designs, resettlement plan, and brochures, etc.)	<ul style="list-style-type: none"> Comprehensive IEC plan developed Printed IEC materials (i.e., leaflets/frequently asked questions, posters, etc.) distributed 10 IEC meetings in both subcenters conducted Consultation meeting minutes 	10,000	<ul style="list-style-type: none"> PMO CMT CDCs and primary groups Third party service provider (i.e., communication firm) 	2017–2021
5. Setup grievance or feedback mechanism in the community	<ul style="list-style-type: none"> System for grievance or feedback mechanism established CDCs function as the grievance committee with guidelines 	5,000	<ul style="list-style-type: none"> PMO CMT 	2017–2021

Activity	Targets/Indicators	Indicative Budget/ Cost in \$	Responsible Entity	Timeline
	on handling grievances		<ul style="list-style-type: none"> • Business councils, CDCs, and primary groups 	
6. Prepare and finalize the proposed SME development plan	<ul style="list-style-type: none"> • 10 meetings of business councils with CDCs in both subcenters • Skills survey and demand mapping completed and documented • Consultation meeting minutes • Documentation of the training processes, i.e., on-the-job-training and apprenticeship with SMEs and construction companies, in coordination with training institutes 	25,000	<ul style="list-style-type: none"> • PMO • CMT • Business councils, CDCs, and primary groups 	2017–2021
7. Capacity building of business councils and CDCs on how to meaningfully engage in the project	<ul style="list-style-type: none"> • Provide legal support for the business councils and CDCs to guide them in their engagement in the project • Terms of reference of the business councils and CDCs are well-defined and understood • Purpose and structure of the project are clearly understood by the business councils and CDCs 	15,000	<ul style="list-style-type: none"> • PMO • CMT • Business councils, CDCs, and primary groups 	2017–2021
Subtotal		95,000		
II. Implementation/construction phase				
1. Facilitate consultative meetings for resettlement/relocation	<ul style="list-style-type: none"> • 20 meetings in both subcenters attended by all affected stakeholders 	5,000	<ul style="list-style-type: none"> • PMO • CMT • Design team and land resettlement team • CDCs and primary groups 	2017–2021
2. Facilitate and support the implementation of SME development plan	<ul style="list-style-type: none"> • 500 community members trained in various skills, and partnership with SMEs and other institutions are developed for employment or for contracting of goods and services • Pilot Manpower Association, composed of trained community members on civil works, is organized and functioning with systems, policies, and ongoing contracts • Trained community members are linked with business incubators for services, i.e., work space, business advisory, etc. • Documentation of process and results, i.e., number of (i) employed persons, (ii) persons who entered into self-employment, (iii) recorded increases in income, and (iv) employees generated • Documentation of manpower association piloting and operations 	55,000	<ul style="list-style-type: none"> • MUB • CMT • Business councils, CDCs, and primary groups 	2017–2021

Activity	Targets/Indicators	Indicative Budget/ Cost in \$	Responsible Entity	Timeline
3. Conduct community-led monitoring of construction works for quality control	<ul style="list-style-type: none"> System, tools, and templates are developed and used for community-led construction project monitoring Trained CDCs with structure on construction project monitoring 	5,000	<ul style="list-style-type: none"> PMO-MUB CMT CDCs and primary groups Contracted construction companies 	2017–2021
4. Continuous capacity building for the business councils, CDCs, manpower associations, and primary groups	<ul style="list-style-type: none"> 20 capacity building trainings, workshops, and learning exchanges conducted in both subcenters Training designs created for capacity building interventions on leadership, team building, community contracting, participation in the subcenter redevelopment process, contract negotiations, business planning, savings movement, etc. Training sessions conducted on business development and management Official registration of business councils and CDCs as non-government organizations 	25,000	<ul style="list-style-type: none"> PMO-MUB CMT Business councils, CDCs, and primary groups 	2017–2021
5. Document good practices, lessons learned, feedback, complaints or grievance issues	<ul style="list-style-type: none"> Documentation of good practices, lessons learned, and community feedback are shared with all stakeholders and reflected in major reports Complaints and grievance issues are documented and resolved 	20,000	<ul style="list-style-type: none"> MUB CMT Business councils, CDCs, and primary groups 	2017–2021
6. Develop IEC program for (i) basic hygiene practices, (ii) community involvement on the <i>ger</i> ^b redevelopment, and (iii) MSME development program, etc	<ul style="list-style-type: none"> IEC materials developed and disseminated 	20,000	<ul style="list-style-type: none"> MUB CMT DDPT Business councils, CDCs, and primary groups 	2017–2021
7. Organizational capacity building of communities and MSME through community contracting of small infrastructure works	<ul style="list-style-type: none"> 10 micro-projects for small infrastructure works developed and implemented based on the CAPs of business councils and CDCs Documentation of community implementation of micro-projects 	150,000	<ul style="list-style-type: none"> MUB CMT DDPT Business councils, CDCs, and primary groups 	2017–2021
Subtotal		280,000		
Total		375,000		

CAP = community action plan, CDC = community development council, CMT = community mobilization team, DDPT = design development and planning team, IEC = information, education, and communication, MSME = micro-, small-, and medium-sized enterprise, PMO = program management office, SME = small- and medium-sized enterprise.

^a A *khoro* is an administrative subdivision in Ulaanbaatar.

^b *Ger* is the Mongolian dwelling fit for nomadic way of life and is easily assembled and disassembled.

Source: Asian Development Bank.

Table 4: Social Action Plan for Project 2

Actions and Activities	Target and Indicators	Responsible Agency	Timeline	Indicative Budget
Output 1: Roads and urban services expanded				
<p>1.1 Public awareness campaign and information disclosure on project design</p> <p>1.2 Consultation with residents and stakeholders on roads and urban facilities' detailed design</p> <p>1.3 Improved design of roads and urban facilities to ensure public safety and inclusiveness (gender, age, and disability responsiveness)</p> <p>1.4 Road safety awareness education program for residents and schoolchildren in target areas</p>	<p>Number and type of awareness and disclosure activities</p> <p>Number and percent of people participating in consultation meetings and awareness campaigns (sex-disaggregated)</p> <p>Number and type of participants' suggestions incorporated into investment program components and design (sex-disaggregated)</p> <p>Lighting installed along the improved roads of 2.48 kilometers in Denjin and 3.25 kilometers in Dambadarjaa</p> <p>Around 25 cameras installed in streets of Denjiin and Dambadarjaa subcenters</p> <p>Number and percent of people participating in awareness education program with 50% female participation</p> <p>At least two trainings conducted for pupils (aged 6–15) of all schools</p>	<p>MUB-PMO, <i>kheseg</i>,^a and <i>khoro</i> district leaders and officials, contractors of Metropolitan Employment Department of the Ministry of Labor, and all infrastructure service provider agencies</p>	<p>2017–2021</p>	<p>Project implementation support cost</p>
Output 2: Economic and public services in targeted areas improved				
<p>2.1 Consultation with beneficiaries and stakeholders regarding the location and detailed design of social facilities such as CDSCs with business incubators, vocational training center, kindergartens, transition house/shelters, public parks, and sport facilities</p> <p>2.2 Improved design of social facilities to ensure public safety and inclusiveness (gender, age, and disability-responsiveness)</p>	<p>Number and type of community-based participation activities</p> <p>Number and percent of beneficiaries of social facilities, i.e., CDSC, vocational training center, business incubators, kindergartens etc., CDSC and transition house are first made available to the poor, persons with disability, and women (sex-disaggregated)</p> <p>Number and type of participants' suggestions incorporated into the project components and design</p>	<p>MUB-PMO, UN-Habitat, <i>kheseg</i>, <i>khoro</i> district officials, community development councils, CDSCs, NGOs, Metropolitan Education Department</p>	<p>2017–2021</p>	<p>Project construction and operation cost</p>

Actions and Activities	Target and Indicators	Responsible Agency	Timeline	Indicative Budget
2.3 Development of sustainable business plans for each social facility	Business plans are available for each social facility (Baseline: 0)	Ministry of Labor, Ministry of Education and Culture, Ministry of Health, MUB Department of Sports and Culture, private sector participants, and facility operators		
2.4 One multipurpose CDSC constructed in each project subcenter with day care, business incubators, space for government CBO and NGOs' social programs, public toilets, and public laundry	<p>100% of residents will have access to CDSC and priority will be given to the poor, women, including single mothers and persons with disability</p> <p>Number of community health, education, economic development and other support programs conducted</p> <p>Number of entrepreneurs and businesses resulting from business incubator support</p>	Relevant MUB agency(ies), NGOs, CBOs, and implementing agency	2017–onwards	
2.5 One kindergarten classroom constructed in each Tranche 1 and Tranche 2 subcenter	100 children accommodated in each facility, 8% of which are first made available to the children from the poor and vulnerable families, including children with disability (sex-disaggregated) (Baseline: 2015 baseline: 10,500 m ² with capacity of 1,000 students)	Metropolitan Education Department, NGOs, and CBOs	2017–onwards	
2.6 Pilot a transitional housing for domestic violence survivor women in Denjiin	Accommodate about 20 women and children (Baseline: 0)	Relevant MUB agency(ies), and implementing agency	2017–onwards	
2.7 Sports facilities developed in Dambadarjaa and Bayankhoshuu subcenters	<p>Combined active and passive sports facilities (Baseline: 0)</p> <p>Accessible to 100% of residents including youth, elderly, disabled</p> <p>Number of sport programs established</p>	MUB Department of Sports and Culture, implementing agency, and CBOs		
2.8 Public parks and open green spaces provided in all subcenters	Number and type of safety measures conducted			

Actions and Activities	Target and Indicators	Responsible Agency	Timeline	Indicative Budget
Output 3: Institutional capacity for program management and urban development strengthened				
<p>3.1 Service providers conduct ongoing, inclusive information, communication, and education program for all residents to inform about improvements, benefits, risks, impacts and timelines of proposed services</p> <p>3.2 Establish preferential service support programs for lowest-income and other disadvantaged groups</p> <p>3.3 Establish citizens' feedback mechanism for assessing the effectiveness of service provision</p>	<p>Number and percent of information, communication, and education program participants. (Sex- and income-disaggregated)</p> <p>Number and percent of lowest-income and disadvantaged groups receiving improved services. (Sex-disaggregated) (Baseline: 0)</p> <p>Citizens' feedback mechanism is established and operating</p>	<p>MUB-PMO, all service provider agencies from public and private, UN-Habitat Ger Area Development Agency, <i>kheseg</i>, <i>khoro</i>, district leaders/officials, CDCs, CDSCs, and NGOs</p>	<p>2017–onwards</p>	
Generating job opportunities: Outputs 1–3				
<p>1. Generate 267 skilled and 533 unskilled jobs at the construction stage.</p> <p>2. Generate 468 jobs of operation stage</p>	<p>8% of which are first made available to the poor and 10% to women (Baseline for female construction workers is 5%)</p> <p>8% of which are first made available to the poor and 10% to women for infrastructure facility, 70% for kindergarten and CDSC, and 100% for woman transition center.</p>	<p>MUB-PMO, <i>kheseg</i>, <i>khoro</i>, district leaders/official, contractors of Metropolitan Employment Department, Ministry of Labor, and all infrastructure service provider agencies</p>	<p>2017–2021</p>	<p>Project construction and operation funds</p>
Measures to reduce potential risks: Outputs 1–3				
<p>1. Include HIV/AIDS and other communicable disease clauses into contract bidding documents</p> <p>2. Public health, HIV/AIDS/sexually transmitted infections, gender violence, and sexual harassment prevention education program conducted to contractors and community residents</p> <p>3. Health measures for construction workers (e.g., setting-up a temporary infirmary, using local medical resources) are established</p>	<p>Terms of construction contract and implementation</p> <p>Public health, HIV/AIDS/sexually transmitted infections, and sexual harassment prevention training courses (Number of trainees disaggregated by sex and target groups)</p> <p>Number and type of health measures</p>	<p>MUB-PMO, <i>kheseg</i>, <i>khoro</i>, district leaders/officials, construction contractors, CDCs and SDCs, Metropolitan Employment Department, Ministry of Labor,</p>	<p>2017–2021</p>	<p>Funds under the construction contract</p> <p>National workplace program (safety, HIV/AIDS, harassment, equity) development</p>

Actions and Activities	Target and Indicators	Responsible Agency	Timeline	Indicative Budget
4. Conduct publicity activities on HIV/AIDS, gender violence, sexual harassment, e.g., brochures, posters, and picture albums 5. Ensure gender and disabled-friendly workplace facilities during the construction	Forms of publicity on HIV/AIDS and sexual harassment prevention at the construction stage, e.g., number of brochures, posters, and picture albums distributed	and all infrastructure service provider agencies		consultant fees of \$7,500
Output 4: Institutions and capacity for urban development strengthened				
4.1 Recruitment of social development and community participation international and national specialists as part of the loan implementation consultant 4.2 The PMO assigns at least one social development specialist to be responsible for the implementation and reporting of the CAP, GAP, and SDAP 4.3 The PMO and relevant government agencies' staff are trained to ensure effective implementation of the project, particularly the GAP and SDAP 4.4 Ensure that subcenter plan and redevelopment process are prepared and endorsed by all stakeholders through community consultations 4.5 Sex-disaggregated data will be collected by the PPMS to ensure monitoring, evaluation and reporting of the GAP and SDAP 4.6 Monitoring and evaluation of CAP, GAP, and SDAP	An international specialist with 3 person-months and local specialist with 27 person-months of input will be engaged One social development specialist from the PMO is assigned to manage and coordinate CAP, GAP, and SDAP work Number and percent of PMO and concerned government agencies' staff who received training on GAP and SDAP with at least 50% of training participants are women (Baseline: 0%) Number and type of consultation attendees with at least 50% are women (Baseline: 0) Indicators involving social development and gender in PPMS Semiannual monitoring reports on GAP and SDAP implementation	MUB-PMO, <i>kheseg, khoroo</i> , district leaders/officials, all urban-related ministries and agencies, and private sector participants	2017–onwards	Project capacity building budget

CAP = community action plan, CBO = community-based organizations, CDSC = community development service center, GAP = gender action plan, MUB = Municipality of Ulaanbaatar, NGOs = non-government organizations, PMO = program management office, PPMS = project performance management system, SDAP = social development action plan.

^a A *khoroo* is an administrative subdivision in Ulaanbaatar.

Source: Asian Development Bank.

C. Gender Action Plan for Project 1

99. **Key actions.** Project 1 is designed as effective gender mainstreaming. Improvements in the infrastructure (roads, water supply and sanitation, and heating) will have a significant impact on time savings, mobility, access, economic opportunity, health, safety and security of *ger* area residents, particularly for women residents. A GAP has been prepared and the actions have been agreed on. The GAP ensures that the project (i) includes design features for safety, security, and pedestrian mobility are integrated into road network; (ii) collects sex-disaggregated data on key issues such as utility connections, time, and cost savings; (iii) further investigates affordability issues under improved services provision to make recommendations on providing subsidies for the vulnerable groups including female-headed households; and (iv) provides social service infrastructure which has targets to serve women so they can join economic opportunity activities. Due to project implementation delay, as of September 2016, 6 out of 11 GAP activities are on track (54.5%), the rest are partially on track. There are 15 indicators, of which nine have gender-related targets. Out of 9 gender targets, 5 are on track (55%), but with 4 of them partially on track. Since all GAP activities of Tranche 2 will be conducted in the sites different from Tranche 1, there is no activity of Tranche 1 that will be carried forward to Tranche 2. But there are five GAP activities for Tranche 2 that are similar to the activities of the Tranche 1 GAP. Taking into account the implementation delays of Tranche 1 GAP it is recommended to monitor and report its progress quarterly through the progress reports.

Table 5: Gender Action Plan for Project 1

Outputs	Action	Indicator	Budget	Responsible Party
Roads and urban services are expanded within the targeted subcenters and connectivity between subcenters is improved	<p>Integrate gender inclusive design measures into road infrastructure to ensure safe and security mobility and access</p> <p>Assess impact of improved roads, water, sanitation and heating on population</p>	<p>6.15 km in Bayankhoshuu and 8.77 km in Selbe of sidewalks built alongside improved roads</p> <p>6.15 km in Bayankhoshuu and 8.77 in Selbe of lighting provided on improved roads</p> <p>4.5 ha and 3.43 ha in Bayankhoshuu and Selbe of landscaping (public spaces) including pedestrian pathways</p> <p>Social indicators included in PPMS such as number of households connected, time and cost savings, health impact, number of nighttime safety incidents, (disaggregated by sex, income quintile and female-headed households where possible). Focus group discussions will also be conducted to further assess impact.</p>	Included in the project output	MUB, PMO, gender specialist, community engagement consultants
Economic and public services are improved	<p>One kindergarten facility in each subcenter with 1,800 m² of floor areas of classrooms, administration and services, and 500 m² of playground (2012 baseline: 0)</p> <p>One business incubator and vocational training center in each subcenter with 1,800 m² floor area and 500 m² of open green area (baseline 0 in 2012)</p>	<p>At least two kindergartens operating by 2018 (number of students served and staff sex disaggregated)</p> <p>At least two business incubators and vocational training centers operational by 2018 (number of students and staff served annually, sex disaggregated)</p> <p>At least 20 MSME's, 50% of which are women led graduated from incubation program (baseline 0 in 2012)</p> <p>At least 1,000 beneficiaries, 50% of whom are women, receiving vocational training (baseline 0 in 2012)</p>	Included in project costs	MUB, PMO, gender specialist, community engagement consultants
Service providers become more efficient	Report on affordability and subsidies included in tariff assessment (disaggregated by income quintile and if possible looking at female-headed households as a special group)	<p>Report by 2018</p> <p>Survey report (providing sex-disaggregated data where possible)</p>	Included in project costs	PMO and consultants working with service providers

Outputs	Action	Indicator	Budget	Responsible Party
	Customer satisfaction survey			
Institutional capacity building	Establishment of <i>khoro</i> CDCs and SDCs with women's representation	<i>Khoro</i> CDCs and SDCs fully functioning in targeted areas, with at least 40% women participating actively (baseline: to be established)	Included in project costs	MUB, PMO, gender specialist, community engagement consultants, staff of new educational establishments
	Establishment and agreement on community, gender and MSME plans	Community, gender, and MSME action plans accepted and regularly updated in each subcenter (0 in 2012)		
	Targets established and sex disaggregated data collected on participants for all community consultations on urban planning and project activities (see SAP activities) collected and reported on in the GAP	GAP report with targets and sex disaggregated data provided semi annually		
	Subcenters' plan and redevelopment process are prepared and endorsed by all the stakeholders through community consultation including at least 50% of women's participation	Consultation meeting attendance and SAP monitoring		
	Establishment of PMO with 30% gender representation	PMO is fully functioning with trained staff at least 30% women (baseline 0 in 2012)		

CDCs = community development councils, GAP = gender action plan, ha = hectare, km = kilometer, m² = square meter, MSME = micro-small- and medium- enterprise, MUB = Municipality of Ulaanbaatar, PMO = program management office, PPMS = project performance management system, SAP = social action plan, SDCs = small- and medium- enterprise development councils.

Source: Asian Development Bank.

100. **Budget and monitoring of the gender action plan.** All actions in the GAP have been integrated into the project budget. In addition, 42 person-months of consulting services have been provided to support the PMO in establishing the mechanisms, implementing, and monitoring the actions. This is complemented by activities under the community development plan, and the consulting services which support these activities. Within the first three months of

implementation, the PMO specialist along with the community development consultants will prepare an implementation plan for the GAP to be agreed with ADB. Monitoring of implementation will be supported by ADB gender and social development specialists during regular review missions. GAP implementation progress reporting will be included in the overall semiannual progress reports by the executing agency. Poverty, gender, and social assessments will be done in preparation for subsequent tranches to determine their respective gender categorization and required actions (e.g., GAPs).

D. CDCs and SDCs

101. CDCs are organized community groups at the *khoro* and eventually at the subcenter levels, which will represent the larger community in the project (TA 7970). Their main function is to (i) serve as the voice of the larger community in providing their sentiments, inputs and/or recommendations to the project to ensure that the investment projects truly respond to their needs through the needs identification and/or prioritization and community action plan processes; (ii) this organization also facilitates the involvement of the community members in the actual implementation of the investment projects so that they do not only benefit from access to improved physical environment but also access to employment as paid labor during construction; (iii) apart from representing the interest of the larger community, the CDCs will also function as the grievance mechanism of the project; (iv) it will also ensure that the requirements of the vulnerable groups, especially the women, persons with disability, very poor, elderly and children are considered in the design and up to the implementation of the investment projects; (v) serve or function as a monitor to ensure that their needs are not only included in the plan but are actually implemented; (vi) serve as the lobby or advocacy group of the community to deal with government and other institutions to push for the community-led approach in *ger* area development; (vii) facilitate awareness-raising among the community members during the land redevelopment process to foster better understanding of the land markets, etc.; (viii) serve as the mechanism to uphold the legal rights of the people especially on matters pertaining to land rights, through the guidance of the legal expert; (ix) work with the private sector to ensure that the construction standards are observed, the appropriate costs are maintained to ensure affordability of services, and that the community members are given the opportunity for employment in the investment projects; and (x) ensure that most especially function to highlight the meaningful involvement of women members in the community in all processes of community development (more on qualitative involvement in issues analysis and decision-making), that optimum benefits accrue to them and they will not be negatively or adversely affected by the investment projects.

102. As a structure, the CDCs emanate from the primary groups composed of 10–20 families from the larger community covered by the project. Each primary group elects their group leader and secretary to represent them to the *khoro* CDC. There are now five *khoro* CDCs in Bayankhoshuu and three *khoro* CDCs in Selbe. These *khoro*-level CDCs will elect their chairpersons and vice-chairpersons who will represent them to the subcenter CDC. There will be one subcenter CDC in each subcenter and these are still in the formation process. All the eight *khoro* CDCs are now functioning and actively engaged in the project.

103. The formation process as well as the roles and functions of the SDC are very similar to that of the regular CDC except that the SDC is a sectoral grouping–SDC. It will function as the voice of the sector including the micro-entrepreneurs in the areas which are mostly operated by women, in the development of the economic facilities in the subcenter. Similar to the CDC, the SDC also went through the needs assessment and prioritization and SDC action plan preparation processes which were submitted to the project preparatory technical assistance for

consideration in the selection and preliminary design of the economic facilities. For Selbe, the formation has proceeded directly from the large membership to the subcenter SDC. It has already elected its officers and now actively functions and interacts with all stakeholders in the project. The Bayankhoshuu SDC formation is still underway.

E. Gender Action Plan for Project 2

104. The project 2 is also categorized as effective gender mainstreaming. The project will have significant benefits for women and will allow them to participate in trainings, income-generating activities, family entertainment, or leisure. Women strongly support the project across all subcomponents, and they perceive that the project will improve their quality of life and create education, employment and income opportunities for them. The GAP which is presented in Table 6 will help to ensure: (i) gender-sensitive design features for safety and security purposes; (ii) education and awareness programs on financial literacy, road and public space safety with 50% female participation; (iii) operation of multi-disciplinary teams on prevention and response to domestic violence in target khoroos; (iv) piloting of transitional housing for domestic violence survivors in Denjiin; and (iv) providing social service infrastructure with relevant targets for serving women in order to provide access to economic opportunities.

105. All actions in the CAP, GAP, and SDAP for project 2 have been integrated into the project budget. In addition, 424 person-months of consulting services have been provided to support the PMO in establishing the mechanisms, implementing, and monitoring the actions. Extensive human resources to address social and gender dimensions will be provided by the consultant services and PMO staff. PMO support will require 3 person-months of international and 27 person-months of national consultants. In addition, the PMO will have a staff member engaged for 20 person-months to supervise and implement the social and gender actions under the project.

Table 6: Gender Action Plan for Project 2

Activities	Targets/Indicators	Responsible Entity	Timeline	Indicative Budget
Output 1: Roads and urban services expanded				
1. Integrate gender-responsive design measures into road infrastructure to ensure access and safety and security mobility	1.1 Number and type of gender-responsive design features 1.2 Lighting installed along the improved roads of 7.08 kilometers in Denjin and Dambadarjaa	MUB, PMO, district, <i>kheseg</i> , <i>khoroos</i> , ^a and school officials	2017–2020	Included in project costs
2. Conduct road safety awareness education program for residents and schoolchildren in target areas	2. At least 50% of participants are women			
3. Ensure safety of girls and women in public places	3.1 25 cameras installed and operating in streets of Denjiin and Dambadarjaa subcenters 3.2 At least four peer educators (female and male) trained for each school in the subcenters 3.3 At least two trainings conducted on Violence Against Women and Girls for adolescent girls of 3 schools in each subcenter (Baseline: 0)	MUB, PMO, and school officials	2017–2020	Included in project costs
4. Sensitize construction workers on gender equity in labor relations	4 At least two workplace trainings conducted on gender equity in labor relations including labor exploitation (sex-disaggregated) (Baseline: 0)	MUB, PMO, and construction contractors	2017–2020	Included in project costs
Output 2: Economic and public services in targeted areas improved				
5. Establish one multipurpose community development services center in the subcenter	5.1 At least 50% of training participants are women (Baseline: 0) 5.2 Sex-disaggregated data collected on community development services center clients	MUB, associated agency, and PMO	2017–2020	Included in project costs
6. Construct four kindergarten classrooms in the subcenters	6.1 Four new kindergarten classrooms with capacity of 100 children each is operational by 2019 (sex-disaggregated) 6.2 Rapid qualitative assessment conducted among mothers whose children were enrolled in new kindergartens	MUB and PMO	2017–2020	Included in project costs
7. Pilot a transitional housing for domestic violence survivor women in Denjiin subcenter	7.1 One transitional house with capacity of 20 women and children is constructed 7.2 Women in transitional house benefitted from skills-building or business development programs in business incubators	MUB, PMO, district, <i>kheseg</i> and <i>khoroos</i> officials including social workers	2018–2020	Included in project costs
8. Train multidisciplinary teams in target <i>khoroos</i> on prevention and response to domestic violence, and public space	8 At least 80% of multidisciplinary teams in target <i>khoroos</i> are trained on prevention and response to domestic violence against women and children, and public space	Ministry of Justice and Home Affairs, and Ministry of Labor	2017–2020	Included in project costs

Activities	Targets/Indicators	Responsible Entity	Timeline	Indicative Budget
safety for girls and women	safety for girls and women (Baseline to be determined in 2017)	and Social Protection MUB, PMO, district, <i>kheseg</i> and <i>khoro</i> officials including multidisciplinary teams		
9. Raise awareness among adolescent girls and boys on public and private space safety	9 At least one behavior change communications campaign held in all schools of each subcenter (Baseline: 0)	MUB, PMO, and school officials including social workers	2017–2020	Included in project costs
Output 3: Institutional capacity for program management and urban development strengthened				
10. Ensure that subcenter plan and redevelopment process are prepared and endorsed by all stakeholders through community consultations	10.1 Dambadarjaa and Denjiin plans and redevelopment processes are prepared and endorsed by all the stakeholders, through community consultation, including at least 50% of women participants (2015 baseline: 0) Dambadarjaa and Denjiin plans and redevelopment processes are prepared and endorsed by all the stakeholders, through community consultation, including at least 50% of women participants (2015 baseline: 0) 10.2 CDCs and SDCs in Dambadarjaa and Denjiin fully functioning, with at least 40% of women participating actively (2015 baseline: 0)	MUB and PMO	2017–2019	Included in project costs
11. Institutional capacity for program management and urban development are strengthened	11 PMO is fully functioning with fully trained staff, at least 50% of whom are women (2015 baseline: 14 persons)			
12. Train relevant officials of different administrative levels on prevention and response to public and private space safety	12.1 A training module on prevention and response to public and private space safety including gender-based violence is developed (Baseline: 0) 12.2 At least one training for relevant officials of different administrative levels is conducted (sex-disaggregated) (Baseline: 0)	MUB, PMO, district, <i>kheseg</i> and <i>khoro</i> officials, and non-government organization(s)	2017–2020	Included in project costs
13. Sex-disaggregated data will be collected by the project performance management system to ensure monitoring, evaluation, and reporting of the gender action plan and social development action plan	13 Sex-disaggregated project performance and management system operational (2015 baseline: 0)	MUB and PMO	2017–2020	Included in project costs
14. Ensure semiannual monitoring and reporting of the gender action plan implementation	14 Gender action plan progress monitoring matrix is updated semiannually	MUB and PMO	2017–2020	Included in project costs

Activities	Targets/Indicators	Responsible Entity	Timeline	Indicative Budget
15. Provide recommendations and draft regulatory framework including standards for establishment of the transitional house.	15 Regulatory framework including standards for establishment of the transitional house is drafted and submitted to line Ministries (baseline 0)	Ministry of Justice and Home Affairs, and Ministry of Labor and Social Protection MUB, and PMO.	2017-2020	Included in project costs

CDCs = community development councils, MUB = Municipality of Ulaanbaatar, PMO = program management office, SDCs = small- and medium-enterprise development council.

^a A *khoro* is an administrative subdivision in Ulaanbaatar.

Source: Asian Development Bank.

Table 7: Social Development Action Plan for Project 2

Actions and Activities	Target and Indicators	Responsible Agency	Timeline	Indicative Budget
Output 1: Roads and urban services expanded				
<p>1.1 Public awareness campaigns and information disclosure on project design</p> <p>1.2 Consultation with residents and stakeholders on roads and urban facilities' detailed design</p> <p>1.3 Improved design of roads and urban facilities to ensure public safety and inclusiveness (gender, age, and disability responsiveness)</p> <p>1.4 Road safety awareness program for residents and schoolchildren in target areas</p>	<p>Number and type of awareness and disclosure activities</p> <p>Number and percent of people participating in consultation meetings and awareness campaigns (sex-disaggregated)</p> <p>Number and type of participants' suggestions incorporated into investment program components and design (sex-disaggregated)</p> <p>Lighting installed along the improved roads of 2.48 kilometers in Denjiin and 3.25 kilometers in Dambadarjaa</p> <p>Around 25 cameras installed in streets of Denjiin and Dambadarjaa subcenters</p> <p>Number and percent of people participating in awareness education program with 50% female participation</p> <p>At least two trainings conducted for pupils (aged 6–15) of all schools</p>	<p>PMO, <i>kheseg</i>,^a and <i>khoro</i> district leaders and officials, contractors of Metropolitan Employment Department of Ministry of Labor, and all infrastructure service provider agencies</p>	<p>2017–2021</p>	<p>Project implementation support cost</p>
Output 2: Economic and public services in targeted areas improved				
<p>2.1 Consultation with beneficiaries and stakeholders regarding the location and detailed design of social facilities such as CDSCs with business incubators, vocational training center, kindergartens, transition house/shelters, public parks, and sport facilities</p> <p>2.2 Improved design of social facilities to ensure public safety and inclusiveness (gender, age, and disability-responsiveness)</p>	<p>Number and type of community-based participation activities</p> <p>Number and percent of beneficiaries of social facilities, i.e., CDSC, vocational training center, business incubators, kindergartens etc., with CDSC and transition house first made available to the poor, persons with disability, and women (sex-disaggregated)</p> <p>Number and type of participants' suggestions incorporated into the project components and design</p>	<p>PMO, UN-Habitat, <i>kheseg</i>, <i>khoro</i> district officials, CDCs, CDSCs, NGO, and Metropolitan Education Department</p>	<p>2017–2021</p>	<p>Project construction and operation cost</p>
<p>2.3 Develop sustainable business plans for each social facility</p>	<p>Business plans are available for each social facility (Baseline: 0)</p>	<p>Ministry of Labor, Ministry of Education and Culture, Ministry of Health, MUB Department of Sports and Culture,</p>	<p>2017–onwards</p>	

Actions and Activities	Target and Indicators	Responsible Agency	Timeline	Indicative Budget
		private sector participants, and facility operators		
2.4 One multipurpose CDSC constructed in each project subcenter with day care, business incubators, space for government, CBO, and NGOs' social programs, public toilets, and public laundry	100% of residents will have access to CDSC. Priority will be given to the poor, women, including single mothers and persons-with-disability Number of community health, education, economic development and other support programs conducted Number of entrepreneurs and businesses resulting from business incubator support	Relevant MUB agency(ies), NGOs, CBOs, and implementing agency		
2.5 One kindergarten classroom constructed in each Tranche 1 and Tranche 2 subcenters	100 children accommodated in each facility, 8% of which are first made available to the children from the poor and vulnerable families, including children with disability (sex-disaggregated) (Baseline: X)	Metropolitan Education Department, NGOs, and CBOs		
2.6 Pilot a transitional housing for domestic violence survivor women in Denjiin	Accommodate about 20 women and children (Baseline: 0)	Relevant MUB agency(ies), and implementing agency		
2.7 Sports facilities developed in Bayankhoshuu and Dambadarjaa subcenters	Combined active and passive sports facilities (Baseline: 0) Accessible to 100% of residents including the youth, elderly, and disabled Number of sport programs established	MUB Department of Sports and Culture, implementing agency, and CBOs		
2.8 Public parks and open green spaces provided in all subcenters	Number and type of safety measures conducted			
Output 3: Institutional capacity for program management and urban development strengthened				
3.1 Service providers conduct ongoing, inclusive information, communication, and education program for all residents to inform about improvements, benefits, risks, impacts and timelines of proposed services	Number and percent of information, communication, and education program participants (Sex- and income-disaggregated)	PMO, all service provider agencies from public and private, UN-Habitat Ger Area Development Agency, <i>kheseq, khoroo</i> , district leaders/officials, CDCs, CDSCs, and NGOs	2017-onwards	Project construction and operation funds
3.2 Establish preferential service support programs for lowest income and other disadvantaged groups	Number and percent of lowest income and disadvantaged groups receiving improved services (Sex-disaggregated) (Baseline: 0)			
3.3 Establish citizens' feedback	Citizens' feedback mechanism is established and operating			

Actions and Activities	Target and Indicators	Responsible Agency	Timeline	Indicative Budget
mechanism to assess the effectiveness of service provision				
Generating job opportunities: Outputs 1–3				
1. Generate 267 skilled and 533 unskilled jobs at the construction stage. 2. Generate 468 jobs of at the operation stage	8% of which are first made available to the poor and 10% to women (Baseline for female construction workers: is 5%) 8% of which are first made available to the poor and 10% to women for infrastructure facility, 70% for kindergarten and CDSC, and 100% for woman transition center.	MUB-PMO, <i>kheseg, khoroo</i> , district leaders/official, contractors of Metropolitan Employment Department, Ministry of Labor, and all infrastructure service provider agencies	2017–2021	Project construction and operation funds
Measures to reduce potential risks: Outputs 1–3				
1. Include HIV/AIDS and other communicable disease clauses into contract bidding documents 2. Public health, HIV/AIDS/sexually transmitted infections, gender violence, and sexual harassment prevention education program conducted to contractors and community residents 3. Health measures for construction workers (e.g., setting-up a temporary infirmary, using local medical resources) are established 4. Conduct publicity activities on HIV/AIDS, gender violence, sexual harassment, e.g., brochures, posters, and picture albums 5. Ensure gender and disabled-friendly workplace facilities during the construction	Terms of construction contract and implementation Public health, HIV/AIDS/sexually transmitted infections, and sexual harassment prevention training courses (Number of trainees disaggregated by sex and target groups) Number and type of health measures Forms of publicity on HIV/AIDS and sexual harassment prevention at the construction stage, e.g., number of brochures, posters, and picture albums distributed	MUB-PMO, <i>kheseg, khoroo</i> , district leaders/officials, construction contractors, CDCs and SDCs, Metropolitan Employment, Department, Ministry of Labor, and all infrastructure service provider agencies	2017–2021	Funds under the construction contract National workplace program (safety, HIV/AIDS, harassment, equity) development consultant fees of \$7,500

CBOs = community-based organizations, CDCs = community development councils, CDSCs = community development service centers, PMO = program management office.

^a A *khoroo* is an administrative subdivision in Ulaanbaatar.

Source: Asian Development Bank.

IX. PERFORMANCE MONITORING, EVALUATION, REPORTING, AND COMMUNICATION

A. Project Design and Monitoring Framework

106. The project design and monitoring frameworks for the program and projects 1 and 2 are shown in Tables 1, 2, and 3.

Table 1: Project Design and Monitoring Framework for the Investment Program

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
<p>Impact Improved living conditions in Ulaanbaatar</p>	<p>By 2028: Poverty headcount index reduced by 30% (baseline: 23.5% in 2012)</p> <p>Incidence of waterborne diseases reduced by 30% (baseline: 90,310 in 2012)</p> <p>Air pollution in Ulaanbaatar reduced by 30% (baseline: 1.286 PM₁₀ concentration in 2012)</p>	<p>National Statistical Office reports</p> <p>Government public health statistics</p> <p>National Statistical Office reports</p>	<p>Assumption Policy environment supports urban development and increased investments in urban infrastructure.</p> <p>Risk Urban infrastructure investments are constrained by fiscal and political factors.</p>
<p>Outcome A network of livable, competitive, and inclusive subcenters in Ulaanbaatar's <i>ger</i> areas</p>	<p>By 2024: % of population with improved access to water, sanitation, and heating increased by 50% (baseline: 0% for water 0%; 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: MNT59,400/ 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>Assumptions Political support and investment in urban infrastructure continue throughout the program.</p> <p>Improved services and urban governance lead to sustained economic growth in the <i>ger</i> areas.</p> <p>Risks Insufficient time and resources are devoted to community mobilization.</p> <p>Lack of private sector participation</p>
<p>Outputs</p>			
<p>1. Roads and urban services are expanded within the targeted subcenters and connectivity between subcenters is improved.</p>	<p>By 2016: 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, and sitting</p> <p>By 2023: Water supply, sewer lines, urban roads, and heating constructed in 132 ha in 6 subcenters (baseline:</p>	<p>PMO progress and completion reports</p>	<p>Assumption The MUB complies with ADBs safeguards policies.</p> <p>Risk 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
	0 in 2012) Improvements and construction of respectively 14.8 km and 9.5 km of connecting roads (baseline: 0 in 2012)		
2. Economic and public services in subcenters are improved.	By 2023: At least 5,000 beneficiaries, 50% of whom are women, receive vocational training (baseline: 0 in 2012) Constructed social facilities based on community needs fully staffed and operational in participating subcenters (baseline: 0 in 2012)	PMO progress and completion reports and district records	Assumption Investment in economic and social facilities leads to increased employment. Risks Inappropriate vocational training courses provided. Lack of demand for commercial facilities built
3. Service providers become more efficient	By 2023: Water supply network pumping system is improved Distribution system is optimized Operation Control Centre is upgraded and expanded	USUG operating and financial reports PMO progress and completion reports	Assumptions Service providers are supportive of proposed policy and institutional reforms Customers continue to pay water and sewerage charges Risk The MUB fails to provide adequate subsidies to augment shortfalls of revenues.
4. Institutional strengthening and capacity building 4.1 Subcenter development and community engagement 4.2 Operations and management of service providers improved	By 2023: 6 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) Subcenters plan are prepared and endorsed by all the stakeholders through community consultation including at least 50% of women participants By 2017: USUG is autonomous in terms of financial and asset management (baseline: USUG not autonomous) Utility tariffs linked to direct cost recovery of O&M, including asset depreciation (baseline: tariffs barely cover O&M)	PMO progress and completion reports CDC reports USUG operating and financial reports USUG business plans	Assumptions Urban planning and subcenter development methodologies and tools and supporting legislation are in place at the start of program implementation. Subcenter redevelopment leads to more efficient land use and management. Risks Program implementation is slowed down by a lack of community and private sector participation. Women are not effectively mainstreamed into the program. Assumptions Policy reforms receive full government support. Appropriate user charges/tariffs are not implemented by the MUB, and/or not supported by the target consumers. Risks

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		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	<p>By 2023: PMO is fully functioning with fully trained staff, at least 30% of whom are women (baseline: 0 in 2012)</p> <p>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)</p>	<p>MUB reports</p> <p>PMO progress and completion reports</p>	<p>Assumption Consultants and PMO staff work effectively as a team.</p> <p>Risk Failure to appoint and retain well qualified and experienced consultants</p>																						
Activities with Milestones for Tranche 1 (after Loan Effectiveness)			Inputs																						
<p>1. Roads and urban services expanded</p> <p>1.1 Detailed design of water and/or sewerage improvements completed (Apr 2014)</p> <p>1.2 Detailed design of heating improvements completed (Apr 2014)</p> <p>1.3 Detailed design of roads and/or other infrastructure completed (Apr 2014)</p> <p>1.4 Urban infrastructure constructed, commissioned, and operating in phases from Apr 2014 to 2016</p> <p>2. Economic and public services in subcenters improved</p> <p>2.1 Detailed design of kindergarten and business incubators and/or vocational training centers completed (mid-2014)</p> <p>2.2 Facilities constructed, commissioned, and operating in phases from the end of 2014 to 2017</p> <p>3. More efficient service providers</p> <p>3.1 Support improvements in operating efficiency</p> <p>3.2 Construction of upgraded facilities and measurement systems completed</p> <p>4. Institutional strengthening and capacity building</p> <p>4.1 PMO fully staffed (mid-Dec 2013)</p> <p>4.2 Hiring of capacity development consultants (Jan 2014)</p> <p>4.3 Subcenter redevelopment authority established and staffed (Dec 2013)</p> <p>4.4 Subcenter planning and development guidelines and regulations in place (Sep 2014)</p> <p>4.5 CDCs and SDCs fully functioning in targeted areas (mid-2014)</p> <p>4.6 Support to financial strengthening and improved regulatory and institutional framework (mid-2015)</p> <p>Tranche 2 is prepared and approved by 2016</p> <p>Tranche 3 is prepared and approved by 2017</p>			<p>Amount (\$ million)</p> <p>Investment Program</p> <table border="0"> <tr><td>ADB MFF</td><td>163.70</td></tr> <tr><td>MUB</td><td>96.00</td></tr> <tr><td>Cofinancing</td><td>60.30</td></tr> <tr><td>Total</td><td>320.00</td></tr> </table> <p>Project 1</p> <table border="0"> <tr><td>ADB</td><td></td></tr> <tr><td>ADF Loan</td><td>22.50</td></tr> <tr><td>OCR Loan</td><td>27.50</td></tr> <tr><td>UEIF-UFPF^a</td><td>3.70</td></tr> <tr><td>MUB</td><td>22.44</td></tr> <tr><td>Cofinancing</td><td>28.38</td></tr> <tr><td>Total</td><td>104.52</td></tr> </table>	ADB MFF	163.70	MUB	96.00	Cofinancing	60.30	Total	320.00	ADB		ADF Loan	22.50	OCR Loan	27.50	UEIF-UFPF ^a	3.70	MUB	22.44	Cofinancing	28.38	Total	104.52
ADB MFF	163.70																								
MUB	96.00																								
Cofinancing	60.30																								
Total	320.00																								
ADB																									
ADF Loan	22.50																								
OCR Loan	27.50																								
UEIF-UFPF ^a	3.70																								
MUB	22.44																								
Cofinancing	28.38																								
Total	104.52																								

ADB = Asian Development Bank, ADF = Asian Development Fund, CDC = community development council, ha = hectare, km = kilometer, MFF = multitranche financing facility, MUB = Municipality of Ulaanbaatar, MW = megawatt, 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.

^a Urban Environmental Infrastructure Fund under the Urban Financing Partnership Facility.

Source: Asian Development Bank.

Table 2: Project Design and Monitoring Framework for Project 1

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
Impact Improved living conditions in Ulaanbaatar	By 2022: Poverty headcount index reduced by 20% (baseline: 23.5% in 2012) Incidence of water-borne diseases reduced by 20% (baseline: 90,310 in 2012) Air pollution in Ulaanbaatar reduced by 20% (baseline: 1.286 PM ₁₀ concentration in 2012)	National Statistical Office reports Government public health statistics National Statistical Office reports	Assumption Policy environment supports urban development and increased investments in urban infrastructure. Risk Urban infrastructure investments constrained by fiscal and political factors
Outcome A network of livable, competitive, and inclusive subcenters in Ulaanbaatar's <i>ger</i> ² areas	By 2018: % of population with improved access to water, sanitation, and heating increased to 20% (baseline: 0% for water 0% and 0% for sanitation and 0% for heating in 2012) in targeted areas Average density in targeted subcenter increased to 75 persons per ha (average baseline: 50 persons per ha in 2010) Number of business establishments increased by 20% (baseline: 33,140 in 2012) in targeted areas Unit production cost of water reduced by 35% (baseline: MNT5,940 per m ³ in 2011)	MUB report on urban construction and districts records MUB report on urban construction and districts records MUB report on urban construction and districts records USUG operation and financial reports	Assumptions Political support and investment in urban infrastructure continue throughout the program. Improved services and urban governance leads to sustained economic growth in the <i>ger</i> areas. Risks Insufficient time and resources devoted to community mobilization Lack of private sector participation
Outputs			
1. Roads and urban services are expanded within the targeted subcenters and connectivity between subcenters is improved.	By 2016: 18.6 km of water supply network, 20.0 km of sewer network and 6.0 km of collector mains constructed Five heating facilities, 21 km of heating network pipes and 2.4 km of heating service connections constructed 15 km of carriageway and 7.9 ha of landscaping and public space including universal design features such as sidewalk, lighting, and sitting	PMO progress and completion reports	Assumption MUB complies with ADB's safeguards policies. Risk Rising world prices of energy and construction materials significantly increase the program's investment and operation and maintenance costs.
2. Economic and public services in subcenters are improved.	By 2016: One kindergarten facility each in Bayankhoshuu and Selbe with 1,800 m ² of floor area of class rooms, administration and services and 500 playground (baseline: 0 in 2012) One business incubator and vocational training center each in Bayankhoshuu and Selbe with 1,800 m ² floor area and	PMO progress and completion reports and District records	Assumption Investment in economic and social facilities leads to increased employment. Risks Inappropriate vocational training courses provided

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
	500 m ² of open/green area (baseline: 0 in 2012)		Lack of demand for commercial facilities built
3. Service providers become more efficient.	<p>By 2017: Central operational system upgraded</p> <p>Equipment and procedures for 4 water pumping stations upgraded</p> <p>10,000 diffusers installed and 5 selectors put in place in the aeration tanks</p> <p>Program for reduction of nonrevenue water implemented in the selected pilot areas</p>	<p>USUG operating and financial reports</p> <p>PMO progress and completion reports</p>	<p>Assumptions Service providers are supportive of proposed policy and institutional reforms.</p> <p>Customers continue to pay water and sewerage charges.</p> <p>Risk 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>By 2015: CDCs and SDCs fully functioning in the two targeted subcenters, with at least 40% women participating actively</p> <p>Subcenters plan and redevelopment process are prepared and endorsed by all the stakeholders, through community consultation including at least 50% of women participants</p>	<p>PMO progress and completion reports</p> <p>CDCs' reports</p>	<p>Assumptions 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>Risks 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>
4.2 Operations and management of service providers improved	<p>By 2017: 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&M, including asset depreciation (baseline: tariffs barely cover O&M)</p> <p>Revised performance contract between the MUB and service providers in place</p>	<p>USUG operating and financial reports</p> <p>USUG business plans</p>	<p>Assumptions 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> <p>Risks Inadequate program resources are allotted to support the policy and institutional reforms.</p>

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks														
			Lack of incentives to attract private sector participation														
4.3 Strengthened program implementation capacity	<p>By 2014: PMO is fully functioning with fully-trained staff, at least 30% of whom are women (baseline: 0 in 2012)</p> <p>Sex disaggregated program performance and monitoring system operational (baseline: 0 in 2012)</p> <p>Project1 detailed designed are completed (baseline: 0 in 2012)</p>	<p>MUB reports</p> <p>PMO progress and completion reports</p>	<p>Assumption Consultants and PMO staff work effectively as one team.</p> <p>Risk Failure to appoint and retain well qualified and experienced consultants</p>														
Activities with Milestones for Tranche 1 (after Loan Effectiveness)			Inputs														
<p>1. Roads and urban services expanded</p> <p>1.1 Detailed design of water/sewerage improvements completed by April 2014</p> <p>1.2 Detailed design of heating improvements completed by April 2014</p> <p>1.3 Detailed design of roads/other infrastructure completed by April 2014</p> <p>1.4 Urban infrastructure constructed, commissioned and made operational in phases between April 2014 and 2016</p> <p>2. Economic and public services in subcenters improved</p> <p>2.1 Detailed design of kindergarten and business incubators/vocational training centers completed by mid-2014</p> <p>2.2 Facilities constructed, commissioned, and made operational in phases between mid-2014 and 2017</p> <p>3. More efficient service providers</p> <p>3.1 Support to improvements in operational efficiency</p> <p>3.2 Construction of upgraded facilities and measurement systems completed</p> <p>4. Institutional strengthening and capacity building</p> <p>4.1 PMO fully staffed by mid-December 2013</p> <p>4.2 Hiring of capacity development consultants by January 2014</p> <p>4.3 Subcenter planning and development guidelines/regulations in place by December 2014</p> <p>4.4 CDCs and SDCs is established in targeted areas by mid-2014</p> <p>4.5 Support to financial strengthening and improved regulatory and institutional framework by mid-2015</p> <p>Tranche 2 is prepared and approved by 2016</p>			<p>Amount (\$ million)</p> <p>Project 1</p> <table> <tr> <td>ADB</td> <td></td> </tr> <tr> <td>ADF Loan</td> <td>22.50</td> </tr> <tr> <td>OCR Loan</td> <td>27.50</td> </tr> <tr> <td>UEIF-UJFP^a</td> <td>3.70</td> </tr> <tr> <td>MUB</td> <td>22.44</td> </tr> <tr> <td>Cofinancing</td> <td>28.38</td> </tr> <tr> <td>Total</td> <td>104.52</td> </tr> </table>	ADB		ADF Loan	22.50	OCR Loan	27.50	UEIF-UJFP ^a	3.70	MUB	22.44	Cofinancing	28.38	Total	104.52
ADB																	
ADF Loan	22.50																
OCR Loan	27.50																
UEIF-UJFP ^a	3.70																
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Total	104.52																

ADB = Asian Development Bank, ADF = Asian Development Fund, CDC = community development council, ha = hectare, km = kilometer, m² = square meter, m³ = cubic meter, 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.

^a Traditional tents for housing.

^b Urban Environmental Infrastructure Fund under the Urban Financing Partnership Facility.

Source: Asian Development Bank.

Table 3: Project Design and Monitoring Framework for Project 2

Impact the Project is Aligned with Improved living conditions in Ulaanbaatar (Ulaanbaatar City Master Plan [2030]) ^a			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
Outcome A network of livable, competitive, and inclusive subcenters in Ulaanbaatar's <i>ger</i> areas	By 2022: a. % of population in Dambadarjaa and Denjiin with improved access to water, heating, and sanitation increased by 20% (2015 baseline: 0% for water, 0% for heating, and 0% for sanitation) b. Average density increased in Dambadarjaa to 200 persons per ha and in Denjiin to 180 persons per ha (2015 average baseline: 104 [Dambadarjaa] and 94 [Denjiin] persons per ha) c. Number of business establishments in Dambadarjaa and Denjiin increased by 10% (2015 baseline: 1,845)	a–c. MUB report on urban construction and districts records	Insufficient time and resources devoted to community mobilization Lack of private sector participation in the redevelopment approaches
Outputs 1. Roads and urban services expanded	By 2021: 1a. 24.1 km of water supply network and 25.8 km of wastewater network constructed (2015 baseline: 5.7 km of water supply network and 3.0 km of wastewater network) 1b. 3 heating facilities with 112.5 MW capacity and 6.0 km of heating network pipes constructed (2015 baseline: 18 heating facilities with 7.0 MW) 1c. 7.08 km of priority roads including street lighting, 3 bridges, and sidewalks constructed (2015 baseline: 3.9 km of paved road and 2 bridges) 1d. 6.1 km of water supply main and 7.2 km of sewage main rehabilitated and expanded (2015 baseline: 2.9 km of water supply main and 4.2 km of sewerage main) 1e. 25 cameras installed and operating in Denjiin and Dambadarjaa subcenters to promote safety for women and	1a–1e. PMO progress and completion reports	Rising global prices of energy and construction materials significantly increase the project's investment and O&M costs

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
	girls in public spaces (2015 baseline: 0)		
2. Economic and public services in targeted areas improved	<p>By 2021:</p> <p>2a. Four kindergarten classrooms with 6,200 m² of floor area and capacity for 400 students constructed (using green building design) in Bayankhoshuu, Dambadarjaa, Denjiin, and Selbe subcenters (sex-disaggregated) (2015 baseline: 10,500 m² with capacity for 1,000 students)</p> <p>2b. Two community development and service centers constructed in Dambadarjaa and Denjiin with 6,000 m² of floor area (2015 baseline: 0)</p> <p>2c. Two urban parks constructed in Banyankhoshuu and Denjiin with 23,770 m² (2015 baseline: 0)</p> <p>2d. Two sports complexes constructed in Bayankhoshuu and Dambadarjaa with 12,000 m² of floor area (2015 baseline: 0)</p>	2a–2d. PMO progress and completion reports and district records	<p>Insufficient resources are allocated to the O&M of socioeconomic facilities</p> <p>Lack of demand for commercial facilities built</p>
<p>3. Institutional capacity for program management, and urban development strengthened</p> <p>3.1 Program management and implementation support</p> <p>3.2 Detailed design, construction supervision, and engineering services inputs on Project 3 feasibility study</p> <p>3.3. Subcenter planning and development,</p>	<p>By 2017:</p> <p>3.1a. PMO is fully functioning with fully trained staff, at least 50% of whom are women (2015 baseline: 14 staff)</p> <p>By 2018:</p> <p>3.1b. Sex-disaggregated data collected for all activities through project performance management system (2015 baseline: 0)</p> <p>By 2018:</p> <p>3.2a. Project 2 detailed design completed (2015 baseline: not applicable)</p> <p>By 2018:</p> <p>3.3a. Tranche 3 feasibility study completed (2015 baseline: not applicable)</p> <p>By 2019:</p> <p>3.3b. Dambadarjaa and Denjiin plans and redevelopment processes prepared and endorsed by all</p>	<p>3.1a–3.1b. PMO progress and completion reports</p> <p>3.2a. PMO progress and completion reports</p> <p>3.3a. PMO progress and completion reports</p> <p>3.3b–3.3c. MUB and districts reports</p>	<p>Inadequate project resources are allotted to support the policy and institutional reforms</p> <p>Lack of incentives to attract private sector participation</p> <p>Failure to appoint and retain well qualified and experienced consultants</p>

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
community participation, SME development in Dambadarjaa and Denjiin, and completion of Project 3 feasibility study	stakeholders, through community consultation with at least 50% female participants (2015 baseline: 0) 3.3c. CDCs and SDCs in Dambadarjaa and Denjiin fully functioning, with at least 40% female participation (2015 baseline: 0)		
Key Activities with Milestones 1. Roads and urban services expanded 1.1 Detailed design of water and sewerage improvements completed by November 2018 1.2 Detailed design of heating improvements completed by November 2018 1.3 Detailed design of roads and other infrastructure completed by November 2018 1.4 Urban infrastructure constructed, commissioned, and made operational in phases between April 2019 and 2021 1.5 Implementation of LARP completed prior to construction activities 1.6 EMP, GAP, and SDAP implemented 2. Economic and public services in targeted areas improved 2.1 Detailed design of kindergarten and business incubators/vocational training centers completed by November 2018 2.2 Facilities constructed, commissioned, and made operational in phases between September 2018 and 2021 2.3 Implementation of LARP completed prior to construction activities 2.4 EMP, GAP, and SDAP implemented 3. Institutional capacity for program management and urban development strengthened 3.1 PMO fully staffed by November 2017 3.2 Hiring of capacity development consultants completed by November 2017 3.3 Subcenter planning and development guidelines and regulations in place by June 2019 3.4 CDCs and SDCs established in target areas by June 2018 3.5 Support to financial strengthening provided and regulatory and institutional framework improved by March 2019 3.6 Tranche 3 prepared by 2018			
Inputs for Tranche 2 ADB: \$66.35 million (loan) Government: \$35.15 million			
Assumptions for Partner Financing European Investment Bank: \$19.64 million (loan)			

ADB = Asian Development Bank, CDC = community development council, EMP = environmental management plan, GAP = gender action plan, ha = hectare, km = kilometer, LARP = land acquisition and resettlement plan, m² = square meter, MUB = Municipality of Ulaanbaatar, MW = megawatt, O&M = operation and maintenance, PMO = program management office, SDAP = social development action plan, SDC = small- and medium-enterprise development council, SME = small- and medium-sized enterprise.

^a State Great Hural (Parliament) of Mongolia. February 2013. *Adjustments to the Ulaanbaatar City Urban Development Master Plan 2020 and Development Directions 2030*. Ulaanbaatar.

Source: ADB.

B. Monitoring

107. **Investment program performance monitoring and evaluation.** The MUB will be assisted by a program steering committee (PSC). The PSC will be set up and will be chaired by the Mayor of Ulaanbaatar and will comprise representatives of the MUB and national agencies. The PSC will meet at least once in every 6 months and review the progress of implementation and provide guidance, as necessary.

108. ADB will regularly visit the project to monitor performance during implementation.

109. ADB and the MUB will use the project performance management system (PPMS) to monitor the effectiveness of the investment program. This will be achieved through the use of indicators and targets covering both macro and micro issues.

110. **Investment program review.** ADB and the executing agency will review the investment program and the periodic financing requests annually covering all institutional, administrative, technical, economic, and other relevant aspects that may have an impact on the performance of the investment program. The review will examine implementation progress and compliance with assurances in the loan agreement.

111. **Compliance monitoring.** The compliance status of loan and project covenants will be reported and assessed through the semiannual progress reports and verified by ADB review missions.

112. **Project performance monitoring and evaluation.** The government will cause the MUB to monitor and evaluate impact through a performance monitoring system, as agreed to by the government and ADB, to ensure that project equipment and materials are managed efficiently, benefit are maximized, and impacts are monitored. The government will also cause the MUB to collect the necessary information and data on project performance, as agreed to by the government and ADB, before project implementation, and at completion of the investment program.

113. **Safeguards monitoring.** The government and the MUB will ensure that laws and regulations of Mongolia governing safeguards, as well as ADB's Safeguard Policy Statement (2009) are followed. The MUB will ensure that all works contracts under the investment program incorporate provisions and budgets for safeguards plans implementation. A program management office (PMO) has been established in the MUB. The PMO includes fulltime social and environment staff members responsible for social and environmental aspects of the project, respectively.

- (i) **Resettlement plan.** Internal monitoring for resettlement plan implementation will be carried out routinely by the PMO either directly or through the services of a resettlement consultant. The results will be communicated to ADB through the quarterly project implementation reports.³¹ The PMO is responsible for managing resettlement plan implementation and taking actions to handle the day-to-day issues. At the end of each tranche, the PMO will prepare a resettlement plan completion report and submit to ADB. The PMO is also responsible for engaging a qualified external monitor to investigate and assess resettlement plan implementation in each tranche. External resettlement plan implementation monitoring will be carried out semiannually during the implementation of resettlement plan and its results will be reported to the MUB and ADB in semiannual reports.
- (ii) **Environmental management plan.** During construction, contractors will develop contractor environment management plans with environmental management and internal monitoring systems based on the updated project 1 and project 2 EMP, undertake self-check activities and fully cooperate with the environmental inspectors of the municipal specialized inspection department and/or specialized inspection divisions of the districts. Contractors will submit monthly contractor

³¹ As and when necessary to report significant progress, implementation issues, or status of earlier identified problems.

environment management plans implementation reports to the PMO. Projects 1 and 2 EMP implementation coordination and verification for the construction and operation periods will be carried out routinely by the PMO with the support of the services of environment consultants. Periodic environmental impact monitoring will be carried out by the PMO through the services of a licensed institute or consultant. The results of projects 1 and 2 EMP implementation and environmental impact monitoring will be communicated to ADB through the annual project EMP monitoring and progress reports, and summarized in the quarterly project implementation reports.³² The annual project EMP monitoring and progress reports will be disclosed on the ADB website.

114. **Gender and social dimensions monitoring.** The PPMS will have the monitoring of the gender action plan (GAP) and social development action plan (SDAP). Clear targets and indicators have been established and some indicators, such as those on employment and training, are also captured in the design and monitoring framework. The international and national gender and social development consultants will assist the executing and implementing agencies to set up effective monitoring systems, and work with the focal points in the executing and implementing agencies to ensure implementation of the GAP and SDAP. The GAP and SDAP will be monitored and reported semiannually and during ADB review missions

C. Evaluation

115. ADB and the government will jointly review implementation of the investment program once a year, covering a detailed evaluation of the scope, implementation arrangements, institutional, administrative, technical, economic, financial, achievement of scheduled targets, and other relevant aspects that may have an impact on the performance of the investment program. The review will examine implementation progress and compliance with assurances in the loan agreement. Feedback from the PPMS activities will be analyzed. Within 3 months of physical completion of tranches 1 and 2, the executing agency will submit a project completion report to ADB.³³

D. Reporting

116. The MUB will provide ADB with (i) quarterly progress reports in a format consistent with ADB's project performance management system; (ii) consolidated annual reports including (a) progress achieved by output as measured through the indicator's performance targets, (b) key implementation issues and solutions, (c) updated procurement plan, and (d) updated implementation plan for next 12 months; and (iii) a project completion report within 6 months of physical completion of first tranche. To ensure projects continue to be both viable and sustainable, project accounts and the executing agency audited financial statements, together with the associated auditor's report, should be adequately reviewed.

E. Stakeholder Communication Strategy

117. The PMO with support of consultants will undertake consultations with key stakeholders. Communication with stakeholders will be managed by the PMO environmental and/or social

³² As and when necessary to report significant progress, implementation issues, or status of earlier identified problems.

³³ Project completion report format available at: <http://adb.org/Consulting/consultants-toolkits/PCR-Public-Sector-Landscape.rar>.

safeguards specialist. The PMO will ensure local stakeholders are consulted, that information on the project is disseminated, and that questions and complaints are addressed quickly and effectively. The community participation component builds off the participation process initiated under the PPTA and has a focus on community based planning. During implementation, the development of a framework with a transparent mechanism to regulate urban and land redevelopment will support continuous dialogue with the communities and will ensure the integration of the current resident into the urban redevelopment process.

118. **Public disclosure.** Public disclosure of all project documents will be undertaken through the PMO and on the ADB website, including the project data sheet, design and monitoring framework, GAP, SDAP, and the report and recommendations of the President. Disclosure of social and environmental monitoring reports will be undertaken during project implementation.

X. ANTICORRUPTION POLICY

119. ADB reserves the right to investigate, directly or through its agents, any violations of the Anticorruption Policy relating to the investment program.¹ All contracts financed by ADB shall include provisions specifying the right of ADB to audit and examine the records and accounts of the executing agency and all project contractors, suppliers, consultants and other service providers. Individuals/entities on ADB's anticorruption debarment list are ineligible to participate in ADB-financed activity and may not be awarded any contracts under the program.²

120. To support these efforts, relevant provisions of ADB's Anticorruption Policy are included in the loan regulations and bidding documents for the program. In particular, all contracts financed by ADB in connection with the program shall include provisions specifying the right of ADB to audit and examine the records and accounts of the executing agency and all contractors, suppliers, consultants, and other service providers as they relate to the investment program. In relation to the program, the executing agency will ensure that (i) a supervisory body is established for prevention of undue interference in business practices, and adequate resources are made available for its effective operation; (ii) a leading group of officials from the supervision division of the executing agency is located in offices involved in bidding, installation, and other operational activities under the investment program; and (iii) periodic inspections on the contractor's activities related to fund withdrawals and settlements are carried out. The executing agency shall also initiate liaison meetings with the Prosecutor's Office, as needed, to discuss any warnings about, or information on, alleged corrupt, fraudulent, collusive, or coercive practices relating to the investment program.

121. The MUB will disclose to the public, and update annually the current status of the program and how the proceeds of the facility are used. For each contract financed under the program, the MUB will disclose on their respective websites information on, among others, the (i) list of participating bidders; (ii) name of the winning bidder; (iii) basic details on bidding procedures and procurement methods adopted; (iv) amount of contract awarded; (v) list of goods/services, including consulting services procured; and (vi) intended and actual utilization of the facility proceeds.

¹ Available at: <http://www.adb.org/Documents/Policies/Anticorruption-Integrity/Policies-Strategies.pdf>.

² ADB's Integrity Office web site is available at: <http://www.adb.org/integrity/unit.asp>.

XI. ACCOUNTABILITY MECHANISM

122. People who are, or may in the future be, adversely affected by the project may submit complaints to ADB's Accountability Mechanism. The Accountability Mechanism provides an independent forum and process whereby people adversely affected by ADB-assisted projects can voice, and seek a resolution of their problems, as well as report alleged violations of ADB's operational policies and procedures. Before submitting a complaint to the Accountability Mechanism, affected people should make an effort in good faith to solve their problems by working with the concerned ADB operations department. Only after doing that, and if they are still dissatisfied, should they approach the Accountability Mechanism.¹

¹ Accountability Mechanism. <http://www.adb.org/Accountability-Mechanism/default.asp>.

XII. RECORD OF CHANGES TO THE FACILITY ADMINISTRATION MANUAL

123. All revisions/updates during the course of implementation are retained in this Section to provide a chronological history of changes to implemented arrangements recorded in the FAM.

No.	FAM Changes/Updates	Date	Remarks
1	Initial draft	29 July 2013	First draft provided to executing agency during fact-finding mission
2	Agreed draft	Xxxxx	Loan negotiations
3	Update (Project 2)	xxxx	FAM updated due to PFR 2 submission
4	Agreed draft	22 February 2017	Loan negotiations

PROJECT PROCUREMENT RISK ASSESSMENT

A. Introduction

1. As part of the project-preparation process, Asian Development Bank (ADB) requires an assessment of the capacity of the executing agency and implementing agencies to procure goods, works and consulting services, and recommendations to be made on actions required to address weakness or constraints. Specifically, the assessment exercise involves:

- (i) evaluating the ability of existing executing agency and implementing agencies procurement processes to comply with ADB's procurement guidelines;
- (ii) identifying the need for training and specific procurement arrangements (in resources or processes) to be adopted during project preparation and implementation, to develop staff competence and improve effectiveness, and to minimize implementation risks; and
- (iii) defining the appropriate level of review, either prior or post by ADB.

2. The assessment has three components:

- (i) The assessment of the general procurement environment.
- (ii) A questionnaire completed by the executing agency and implementing agencies.
- (iii) The preparation of a procurement capacity assessment report, including corrective recommendations.

B. Expected Procurement under the Project

3. The project will involve a broad range of procurement contracts covering consulting services, goods, and works contracts. There will be 6 works contracts procured by international competitive bidding (ICB) (above \$5 million), 5 works contracts procured by NCB (between \$0.1 million and \$5 million) and 1 contract procured using community participation in procurement. There will be also two consulting service contracts for Tranche 2, both by QCBS selection. Advance contracting for recruitment of consulting services related to detailed engineering design and supervision, and project management support has been requested by MUB. MUB has been informed that advance contracting is part of the normal procedure, and that ADB's support for advance contracting does not commit ADB to approve the loan project or to finance the recruitment costs. The QCBS (90:10) method will be used to procure consulting services for the PMO. International: 246 person-months and National: 743 person-months

C. Assessment of General Procurement Environment

4. The assessment of the general procurement environment for the Government of Mongolia (GOM) is an exercise that is undertaken by ADB and updated normally on an annual basis. The ADB assessment is shown in **Table 1**.

5. This assessment is essentially to ascertain the level of risks (low, average, or high) associated with the procurement process. The main areas with high risks are identified:

- (i) MUB Procurement Unit has not yet acquired significant practice in both national and international procurement procedures. Capacity to undertake procurement is rated weak.
- (ii) The number of staff working on MUB procurement agency is sufficient to carry out

procurement works for additional projects but the municipal staff are not fully trained to carry out procurement according to the ADB Guidelines. Procurement training has been provided under T1. Staff turnover is high. Procurement capacity still needs strengthening.

- (iii) Lack of a procurement manual/s specifying how the legal requirements are translated into detailed work procedures.
- (iv) Lack of procurement accreditation or professionalization program.
- (v) High staff turnover rate

6. However, the requirement to adhere to the procedures stated in ADB Procurement Guidelines will mitigate these risks to acceptable levels.

Table 1: The National Procurement Environment

General Procurement Environment Assessment	Risk Assessed as:	Low	Average	High
1. Is there a procurement law? The answer to this is a simple yes or no, i.e. is there a single law governing procurement, which is representative of best practice or is procurement governed through various laws, decrees etc.? Assess this as either "high" or "low".		X yes		
2. Are the laws and regulations clear and concise? If there is no single law check "high", and similarly if the law is complex and difficult to follow check "average". If the law is easy to follow check "low".		X		
3. What does the law (or regulations applicable to procurement) cover? If there is a single law, "low" will apply when the law covers drafting and use of standard bidding documents evaluation, contracting, through to the management of contracts including payment, warranty, and defects liability periods. The less the procurement process is covered the higher the risk. If there is no single law, check "high".		X		
4. Does the law cover the procurement of consulting services? If consulting services are not covered or there is no law the risk is high, if they are covered the risk is low.		X		
5. Does the law differentiate between processes for consulting services and Goods/Works? If there is no law, or it applies the same processes to consulting services as for goods and works check high. If there is some differentiation but the processes are similar, check average. If consulting services are dealt with separately check low.		X		
6. Does the law require advertisement of all procurement opportunities? Low risk will be represented through advertisement all above \$25,000, average above all above \$100,000, high by no advertisement or advertisement at a higher threshold than \$100,000.		X		
7. Are contract awards advertised? The same thresholds as stated in question 6 should be applied.				X

General Procurement Environment Assessment	Risk Assessed as:	Low	Average	High
8. Are there restrictions on goods works and services on the basis of origin? If procurement is limited to solely national origin check high, if there are restrictions or a national preference scheme, average. If none, low.		X		
9. Do the law or relevant legislation and regulations provide acceptable provision for the participation of state owned enterprises? Only if the SOE is legally and financially autonomous and not a dependent agency of the purchaser low, other than this, high.		X		
10. Are there restrictions on the nationality of bidders and consulting firms invited? If procurement is limited to solely national firms and individuals, check high; if there are restrictions or a national preference scheme, average. If none, low.			X	
11. Are foreign bidders and consultants forced to offer through or with local partners? If yes, high; in certain circumstances, average; never, low.		X		
12. Is there a domestic preference scheme? If there is across the board high, if applicable in limited circumstances, average, if none, low.			X	
13. Is there a national standard mandated for use for quality control purposes? No, or Yes with direct, accessible international equivalents low, yes without international equivalents, high.			X	
14. Are any agencies exempt from the law? Such as the security forces, if yes high, also high of any types of goods are exempt from parts of the law such as medicines, text books or any other commodity.				For government procurement, yes; for general procurement, no.
15. Is the default method for procurement open competition? Either yes or no, and low or high.		X		
16. Is open procurement easily avoided? If the procurement law allows avoidance of open procurement above the national threshold on the basis of circumstances that are not in response to natural disasters, i.e. simple urgency, check high; if open procurement can be avoided by senior management decision average. If avoidance requires approval of an oversight agency, low.			X	
17. Do the rules and regulations require prequalification? Only for complex contracts, low; no contracts, average; all contracts, high.		X		
18. Do the rules and regulations require registration? If yes, high; if only for specialist goods such as medicines, average; if no registration, low.				Require registered, licensed company
19. Are there systematic procurement process audits? Yes, low; only financial audits, average; none, high.			X	
20. Is there a national procurement manual or guide? A single procurement manual or guide, low; manual exists but out of date/not in wide use, average; none, high.		X		

General Procurement Environment Assessment	Risk Assessed as:	Low	Average	High
21. Do the laws and regulations mandate the use of standard documents? Documents for goods, works, and consultants services, low; just for two of the three, average; only one or none, high.			X	
22. Have these standard bidding documents been approved for use on ADB projects? Yes, low; some but not all, average; no, high.	X			
23. Do the regulations require the collection of nationwide statistics on procurement? Yes and statistics collected, low; yes but data not collected or used, average; no, high.			X	
24. Is consolidated historical procurement data available to the public? Yes, low; too much or too little, average; no, high.			X	
25. Do the procurement laws and regulations contain provisions for dealing with misconduct? Such as fraud and corrupt practices – the procurement law or regulations may include or cross refer to anticorruption legislation. Yes, low; no, high.	X			
26. Is fraud and corruption in procurement regarded as a criminal act? The penalties should include penal servitude (prison) yes, low; no high.			X	
27. Have there been prosecutions for fraud and corruption? If there have been successful prosecutions for fraud and corruption, low; if prosecutions seem to focus solely on low grade junior staff, average; none, high.			X	
28. Is there an alternative disputes resolution process independent of government and courts? If there is an arbitration law and independent process, low; if the standard contracts use ICC or similar dispute resolution, average; if arbitration is through the courts or can be overturned by courts, high.			X	
29. Does the law allow for sovereign immunity to the executing agency for claims against it? If plaintiffs can sue the government for contractual nonperformance, low; if they cannot, high.			X	
30. Do the regulations allow for black listing (disbarment) of firms and individuals? If there is no black listing process or the process is transparent and equitable and undertaken by an independent oversight agency, low. If there is a process and it is administered by a single line agency such as finance, average. If it is administered by the executing agency, high.			X	
31. Which body oversees procurement? Independent body reporting to the elected body, low; single body reporting to the cabinet, average; no body or reports to a single state agency, such as the Prime Minister or Finance Minister, high.	X	MOF		

General Procurement Environment Assessment	Risk Assessed as:	Low	Average	High
<p>32. What powers does the oversight body have? If the body can impose administrative sanctions on an executing agency and its staff and overturn contract awards including ministerial decisions, low. If the body only can impose sanctions through the head of the executing agency, average. If the body can only recommend action, high.</p>			X	
<p>33. Is there a nationwide procurement training plan? If procurement training is assessed and planned for nationwide, low. If this is delegated to line agencies, average. If there is no strategy or plan, high.</p>			X	
<p>34. Is there a procurement accreditation or professionalization program? An externally recognized program, low. A government sponsored program, average. None, high.</p>			X	
<p>35. Are major projects identified within an agencies appropriation or budget? Yes low, no but a system in place for the ring-fencing of project funds average, neither low</p>		X		
<p>36. Is the procurement cycle tied to an annual budgeting cycle i.e. can procurement activity only commence once a budget is approved? No medium expenditure framework in place, low. Activity may start up to but excluding contract award, average; Yes tied to annual budget, high</p>				X
<p>37. Once an appropriation or budget is approved will funds be placed with the executing agency or can the executing agency draw them down at will? Yes, low. No (additional controls imposed such as cash release system), high.</p>				X
<p>38. Can an executing agency draw directly from a loan or imprest account or will it spend budgeted funds with the borrower claiming reimbursement? Draws directly, low; from budgeted funds, high.</p>				X
<p>39. When an executing agency is implementing a project using funds from the national budget has a delay in funding significantly delayed procurement? No or not applicable, low; yes, high.</p>			X	

D. Executing Agency's Procurement Capacity Assessment

7. The procurement questionnaire as shown in Annex 1 was used to assess Municipality of Ulaanbaatar (MUB) and Project Management Office (PMO). The PMO was established under MUB in 2013. The PMO is headed by the project coordinator appointed by the Mayor's Office of Ulaanbaatar. Eleven full-time staff, including a full-time deputy coordinator, are assigned to the PMO in charge of the daily operations. The MUB established the PMO for the project, and will take the lead for the procurement process for the entire project. The PMO will engage staff and consultants to assist in procurement for the project. The PMO will coordinate with the consultants and the master planning agency (MPA) for bidding document preparation, bidding process, bidding evaluation, prepare and submit bidding evaluation reports to ADB for endorsement. The procurement capacity is evaluated through interviews and the questionnaire as divided into five subsections:

- (i) general resources: staffing and equipment;
- (ii) procurement processes for goods and works: preparation of bid documents and tendering process;
- (iii) procurement processes for consulting services: consultant selection procedure;
- (iv) process oversight and control: checks-and-balance and contract administration; and
- (v) record keeping.

1. Assessment of General Resources

8. The PMO staff has gained experience with procurement for ADB Tranche 1 funded project. However, there is only one staff dedicated to procurement operations. PMO will utilize the consultant resources to realize good control of the project progress, cost, and quality. A project management mechanism has been established, and relevant training has been conducted to ensure that they could adequately coordinate and guided in the implementation of the procurement plan.

9. The capacity constraint due to inadequacy knowledge of procurement staff could result in delays or mistakes in directing and coordinating engineering design, bidding document preparation, bidding process, bidding evaluation, etc. during the procurement process. The PMO support consultant is crucial for successful implementation of the loan project, which should be engaged by the executing agency to provide additional resources in assisting the executing agency and implementing agencies in complying with the loan agreement terms as regards procurement, project management, and other aspects. Even before the engagement of the PMO support consultant for Tranche 2, additional procurement support especially in bidding document preparation and recruitment of consultants, will be required to assist the PMO and implementing agencies for the early stage of the procurement process.

2. Assessment of Procurement Processes for Goods and Works

10. Responses to the questionnaire show a systematic process is not yet fully in place for preparing bid documents, bids evaluation, and contract award. The PMO is not full of engineering knowledge. It is understood that the executing agency will hire a detailed design consultant to prepare the preliminary and construction drawing designs, and engage a support consultant firm to assist in the preparation of the bidding documents and bidding process. The common practice in the

GOM is that the master planning agency (MPA) and Urban Detailed design consultant will oversight the detailed design drawings and the bills of quantities as the technical parts of the bidding documents, while the PMO support consultant firm will prepare the commercial part of the bidding documents. However, since the bidding documents for the foreign-funded projects require the full technical specifications and much more detailed bills of quantities, the detailed design consultants and the PMO staff are usually not able to complete the technical bidding documents to the quality usually required for the foreign-funded projects. An extensive support from ADB shall be provided to ensure the implementation of the project. Since both detailed design consultants and the MUB are usually not familiar with ADB funded projects, it is necessary to include experienced procurement specialists in both the support consultant team and prior to the engagement of the detailed design consultants to help the executing agency and implementing agencies prepare bidding documents and help in bidding process. The "Bid Evaluation Committee" are composed of the owner's representatives and selected experts external to the organization will decide the successful bidder in accordance with the PPLM. The procedures are in principle satisfactory as long as the additional procedures specified in the ADB Procurement Guidelines are followed.

11. There is lack of engineering background capacity in preparing the technical parts of the bidding documents involved in the project, it is recommended that the capacity building program for the PMO should include experienced international procurement specialists with adequate input assisting bidding document preparation and procurement training and supervising the detailed design and support consulting firms.

12. During project implementation, the PMO support consultant should provide on-the-job training on procurement and provide assistance in prepare and review the bid documents and update using ADB standard bidding documents to ensure compliance with ADB requirements, and in addressing ADB's comments during the tendering process.

3. Assessment on Procurement Processes for Consulting Services

13. Based on Tranche 1 discussions and interviews of the PMO management and staff, it is concluded that they have some experience of procuring a consulting firm for implementation of the Project. It is suggested that ADB provide guidance to the PMOs during recruiting the consulting firm process. It is recommended that the consulting firm is recruited as soon as possible, certainly before the civil works and equipment contracts are awarded.

4. Assessment of Process Control and Oversight

14. Based on interviews and surveys, PMO staff is familiar with domestic procurement process for recruiting consulting services. There are well-established national and local guidelines and regulations to engage consultants for the domestic consulting services. The staff attended procurement trainings provided by ADB and other government agencies and with knowledge for ADB procurement process for works. Control and oversight will be established at the MUB and PMO:

- (i) For approving bid documents, tender recommendations, etc.
- (ii) The procedures for dealing with invoicing, payment, and nonpayment.
- (iii) Declaration of conflict of interest in procurement process will be required.

15. However, closely monitoring and detailed instructions to the PMO during the procurement process are required. Additional controls by ADB through its reviews and approvals of bidding documents, instructions to the bidding process and contracts serve to ensure fairness, and openness in procurement and compliance with ADB's procurement principles.

5. Assessment of Record Keeping

16. From responses received, a reasonable record system is established for safekeeping the original contracts, copies of bids and bid evaluation, and contract administration documents. However, the importance of book keeping and clearly defined filing system shall be addressed to PMO and the filing system shall be enhanced through capacity development and training.

E. Procurement Capacity of Implementing Agencies

17. The, Executing Agency – Municipality of Ulaanbaatar (MUB) a Municipality of Ulaanbaatar (MUB) is responsible for program oversight, administration, and the implementing agency for the project the Program Management Office (PMO), Responsible for program implementation and management. The primary role of each agency is to carry out the construction of the Ger Area projects in the target sub-centers, and they are responsible for project construction management, supervision, quality control, and approval process. Currently, the procurement unit of MUB is fully staffed and the PMO has one full-time procurement staff. The PMO staff are familiar with the procurement process for the domestic construction projects, but do not have experience working with foreign-funded projects.

18. Based on the responses from the procurement capacity assessment questionnaires for the implementing agency and PMO (Annex 1), the procurement capacity of the implementing agency has been assessed and evaluated in the four aspects and the results are summarized in the following paragraphs.

1. Assessment of General Resources

19. The staff of the implementing agency has certain experience with the procurement of urban infrastructure development for domestic funded project, but they do not have experience for procurement for foreign-funded urban development projects. The staffs are in general lack of knowledge and experience for ADB procurement procedures, bidding document preparation, and procurement process. The one full time procurement staff of the PMO is now experienced in international procurement process.

2. Assessment of Procurement Processes for Goods and Works

20. The staff from implementing agency are familiar with domestic procurement process and experienced dealing with domestic urban development projects. However, the responses to the questionnaire show a systematic process is not yet fully in place for preparing bid documents, bids evaluation and contract award as required by ADB procurement procedures. In particular, the staffs do not have knowledge of bidding document preparation and ADB procurement procedures. Since staff are not familiar with ADB funded projects, it is necessary to include experienced procurement

specialists in the support consultant team/s and prior to the engagement of the design and support consultants' teams to prepare bidding documents and help in bidding process.

3. Assessment on Procurement Processes for Consulting Services

21. Based on the responses to the questionnaires by the implementing agency, it is concluded that the management staff have limited experience in recruiting consulting service for international projects and little experience of international procurement of goods and works. There is sufficient experience in carrying out national procurement according to the PPLM.

4. Assessment of Process Control and Oversight

22. Based on interviews and surveys, the implementing agency staff is familiar with domestic procurement process for recruiting consulting services. There are well-established national and local guidelines and regulations to engage consultants for the domestic consulting services. Oversight will be established for:

- (i) Approving bid documents, tender recommendations, etc.
- (ii) Procedures for dealing with invoicing, payment, and non-payment.
- (iii) Declaration of conflict of interest in procurement process.

5. Assessment of Recordkeeping

23. Similar to the executing agency the PMO, has a reasonable record system established for safekeeping the original contracts, copies of bids and bid evaluation, and contract administration documents. The importance of book keeping and clearly defined filing system shall be addressed to implementing agencies and the filing system shall be enhanced through capacity development and training for Tranche 2.

24. There are two features to procurement capacity in Mongolia. First, the implementing agencies need to have the organization setup, resources, and technical knowledge to handle the procurement processes. Second, it is necessary to examine the current national procurement processes adopted to see how well these are aligned with ADB Procurement Guidelines. The implementing agency will mainly be concerned with the procurement of contractors in accordance with the Procurement Plan approved by the ADB and updated regularly thereafter.

25. The assessment indicates that implementing agencies have some relevant experience, but they are lack of experience and knowledge for the procurement of goods and works for internationally financed project. Some implementing agency staff have received training in ADB procedures during appraisal process.

26. The implementing agencies follow the procurement processes spelled out in governing documents, notably the "Public Procurement Law of Mongolia (PPLM)" in accordance with established administrative procedures. Key processes adopted relating to procurement of contractors for goods and works are as follows:

- (i) Detailed design consultants will develop construction drawings, bills of quantities, and technical specifications to the required standards.

- (ii) PMO support consultants will draft commercial part of the bidding documents following ADB standard bidding documents.
- (iii) ADB and PMO will approve contract documents.
- (iv) Procedures are in place for tender notification, submission, and rejection.
- (v) Tender evaluation by a committee composed of the owner and selected experts.
- (vi) Need for personnel involved to declare any potential conflict of interest.
- (vii) Requirement for external approval of major procurement decisions.
- (viii) Requirement for written chronicle for procurement decisions.
- (ix) Monitoring of contractual performance and fulfillment of payment obligations.
- (x) Requirement for safekeeping of original contract and contract correspondence.

27. The assessment also reveals that there is no dedicated national procurement manual available to guide detailed operations, and that the implementing agencies have little experience with ADB funded projects. Therefore, more procurement training is necessary and capacity of procurement must be enhanced. A procurement manual was developed and translated into Mongolian language under Tranche 1.

F. Summary of Assessment and Recommendations

28. The PMO is responsible for the procurement of the consulting services for the project implementation, and the PMO is also responsible to provide guidance and coordinate with the MUB to procure all construction contracts for the sub-centers and provides oversight of contract management. The PMO will coordinate and manage the preparation of bid documents by the detailed design consultant (technical part) and the PMO support consultant (commercial part), organize bid evaluation, coordinate for contract award and signing of contracts. Subsequently the PMO will coordinate with MUB to provide contract administration and record keeping.

29. Based on the evaluation of the executing agency and implementing agency and the responses to the procurement capacity questionnaires, the general findings of the assessment are as follows:

30.

- (i) The MUB has an established procurement units/division, and the staffs are experienced in procurement for domestic urban infrastructure projects, but they do not have much procurement experience for foreign-funded and ADB projects.
- (ii) The PMO has certain experience in procurement for consulting service contracts for domestic projects, and some experience for foreign-funded projects.
- (iii) The implementing agencies have adequate technical resources to handle water supply and urban infrastructure components, but they do not have experience in procurement, contract management, and construction management for foreign-funded projects.
- (iv) Rules and regulations are in place within the MUB-PMO for handling the various stages of procurement from bid document preparation, bid evaluation, contract award and administration ensuring fairness and a reasonable degree of check-and-balance during the procurement process. Safe record keeping for contract documentations will also be provided.
- (v) The practice for preparing the bidding documents for the urban infrastructure construction is that the detailed design consultant and the PMO support consultant

prepare the bidding documents. For the foreign-funded projects, comprehensive technical bidding documents including bills of quantities, specifications and construction drawings are required.

- (vi) The implementing agency have limited ADB projects experience and are unfamiliar with ADB procurement requirements and procedures, in particular if special actions are required for advance contracting and retrospective financing.

31. Based on the above assessment for the current procurement capacity for the executing agency and implementing agencies, the potential risks and other constraints associated with procurement are summarized as follows:

- (i) Due to lack of procurement capacity and recent staff turnover, dealing with foreign-funded and ADB project is expected to take longer time for the PMO and MUB to learn and to get familiar with ADB procurement policies and procedure, especially during the early stage of the Tranche 2 project implementation and contracts.
- (ii) As staff have limited professional English skills and international procurement experience, it is difficult to ensure high quality English bidding documents for international bids.
- (iii) Adoption of the ADB Procurement Guidelines providing standard detail procedures will mitigate these risks.
- (iv) The use of the ADB standard bidding documents for ICB and ADB approved drawings for NCB will mitigate the risks in preparing bidding documents meeting ADB procurement procedure requirements.

32. Based on the assessment and previous working experience with the MUB-PMO, the following recommended measures to mitigate risks and facilitate procurement are proposed:

- (i) The PMO support consultant to be engaged by the executing agency should include building procurement capacity, providing on-the-job training to PMO and implementing agencies procurement staff on ADB requirements and procedures, and providing technical assistance in terms of review of detail design and bid documents, review of bid evaluation report, and addressing ADB's comments on relevant documents.
- (ii) The training for procurement capacity shall be provided early in the project preparation stage to procurement staffs so that they can get familiar with ADB procurement policies and procedures to ensure efficient implementation of the project.
- (iii) After the completion of loan agreement and before the mobilization of the PMO support consultant, there is a period of time up to six or more months when there are no consultants helping the MUB-PMO, and this is also the period that the bidding documents for the early contracts need to be prepared. It is recommended that an experienced international procurement specialist should be engaged, to help in bidding document preparation, bidding process, bid evaluation and other procurement related tasks.
- (iv) The current practice is to hire a PMO support consultant team to handle bidding process and safeguards. The PMO support consultant can only assist the MUB-PMO in preparing commercial part of the bidding documents and help the owner to carry out the bidding process. It is important to PMO to engage early a PMO support consultant that have previous foreign-funded and ADB project experience. The detailed design consultant should also be experienced in preparing technical

sections of the bidding documents and experienced in both international and national regulations.

- (v) There is a need for assurance of ADB's Guidelines on procurement. This will be in the form of 'Prior Review' by ADB in accordance with the agreed Procurement Plan. Prior review will be required for all ICB contracts, the first NCB contract for civil works, and the first NCB contract for goods for each procurement. Post review will be applied to other smaller procurement packages.
- (vi) Extensive training on procurement will be necessary to reinforce understanding and compliance with ADB's Guidelines. Prior to the recruitment of procurement specialist and/or consulting firm, the staff from the PMO and implementing agencies should seek opportunities to participate ADB or World Bank procurement training and workshops. Special training and workshops provided by the PMO support consultant and by the ADB procurement specialist/s.

33. The scope of the procurement law in Mongolia, have the following provisions for externally funded projects: (i) The Law shall apply to the public procurement of goods, works and services, (ii) Unless otherwise provided in international agreements to which Mongolia is a party, this Law shall apply to regulating procurement of goods, works and services funded by foreign grants or loans. This means that ADB funded projects should be handled through use of ADB Guidelines specified in the loan agreements. However, common practice is to mix the local and international requirements, which is a source of delays and disagreements leading to complaints.

34. Reviews will assess procurement to validate reported procurement capacity and address gaps that may impede program effectiveness. Relevant provisions of ADB's Anticorruption Policy (1998, as amended to date) are included in the investment program's loan regulations and bidding documents. The executing agency will disclose how facility proceeds are used to the public and annually update the program status.

35. Delay in project implementation: The government will ensure that the PMO is staffed with experienced professionals. Consulting services for Tranche 2 will be tendered and hired by the current PMO and PMO support consultants. The MUB will ensure that the approval process of detailed design and bidding documents will be simplified to ensure a prompt project implementation.

36. The MUB lacks the capacity to implement large, sophisticated projects, including procurement. The program allocates funding to cover consulting services support and additional staff with experience and suitable skills. The program will focus on key sector improvements in project imprest account management and reporting, project accounting, contract management, and project performance monitoring and reporting.

37. When procurement is inefficient. ADB will apply procurement review for effective implementation during loan reviews to validate reported procurement capacities and address gaps that may impede program effectiveness.

38. The program will include two large package for consulting services, and only reputable companies with sufficient resources will be short-listed. Executing and implementing agencies will liaise regularly with ADB and the project consultant team to ensure that ADB guidelines are followed. Interagency coordination will be enhanced at all levels to monitor the performance of the MFF portfolio.

ANNEX 1
Executing Agency MUB/PMO
PROJECT PROCUREMENT RISK ASSESSMENT QUESTIONNAIRE

QUESTION	RESPONSE ¹	RISK ²
A. ORGANIZATIONAL AND STAFF CAPACITY		
PROCUREMENT DEPARTMENT/UNIT		
A.1 Does the agency or Government have a Procurement Committee that is independent from the head of the agency?	The Agency or Government does not have a Procurement Committee. The Public Procurement Law Mongolia (PPLM) requires establishing an ad-hoc evaluation committee for every single tender process. The Governor of the City is in charge of establishment of Evaluation Committee for organizing the tendering in accordance with procedures of applicable laws and regulations. Evaluation committee consist of 5 or 7 members. The composition of an Evaluation committee includes 1-2 members from Implementing Agency, 2-3 members from Executing Agency (Municipality of Ulaanbaatar), 1 representative from citizen and 1-2 members from NGO, professional association in the field, for providing transparency of procurement activities.	*
A.2 Does the agency have a procurement department/unit, including a permanent office that performs the function of a Secretariat of the Procurement Committee?	Agency has a procurement department, which performs the role of a secretariat. It performs the function of a Secretariat of the Procurement Committee only for National Procurements but within budget of Ulaanbaatar City. Please see the attached Organization Chart with Attachment 1.	
A.3 If yes, what type of procurement does it undertake?	The Procurement Unit of the Agency conducts procurement of works, goods and consulting	

1 Responses should include a discussion of the e-procurement component if an e-procurement system is in use or if is being planned for implementation.

2 Questions indicated with * are associated with potentially 'High' or 'Substantial' risks due to the impact being 'High', therefore the strategy for managing those risks should be addressed in the Project Procurement Risk Analysis (Appendix 3).

QUESTION	RESPONSE ¹	RISK ²
	services funded by the state and Ulaanbaatar City budget.	
A.4 How many years' experience does the head of the procurement department/unit have in a direct procurement role?	The chief of the agency has 4 years of experience in the field.	*
A.5 How many staff in the procurement department/unit are: i. full time ii. part time iii. seconded	The Procurement Department of Ulaanbaatar City has 16 full time employees. Please see the attached Organization Chart with Attachment 1.	
A.6 Do the procurement staff have a high level of English language proficiency (verbal and written)?	Not all procurement staff have a high level of English language proficiency. Most of them have basic English knowledge. Because, the Department conducts National procurements mostly.	*
A.7 Are the number and qualifications of the staff sufficient to undertake the additional procurement that will be required under the proposed project?	The Procurement department was established on 4 January 2013 with 56 staffs, including 1 chief, 2 deputy chiefs, 10 staff for Procurement division, 7 staff for e-procurement division, 2 staff for legal division, 10 staff for administrative division and 12 staff for control of drawings and budget division. After the restructuring in October 2016, the department employs 35 staff, including 1 chief, 1 deputy chief, 16 staff for procurement division, 17 staff for legal and Monitoring division and Administrative and Finance division. However, the Procurement department informed that they are capable of undertaking additional procurement.	*
A.8 Does the unit have adequate facilities, such as PCs, internet connection, photocopy facilities,	The Procurement department have adequate facilities to undertake the planned procurement.	

QUESTION	RESPONSE ¹	RISK ²
printers etc. to undertake the planned procurement?		
A.9 Does the agency have, or have ready access to, a procurement training program?	<p>In accordance with the PPLM, Professional Government Procurement Agency provides training to procuring entity and tenderers.</p> <p>The Procurement department of Ulaanbaatar City have ready access to training programs.</p>	*
A.10 At what level does the department/unit report (to the head of agency, deputy etc.)?	The Procurement department has vertical organizational structure. The division heads reports to the deputy director and deputy reports to Chief.	
A.11 Do the procurement positions in the agency have job descriptions, which outline specific roles, minimum technical requirements and career routes?	Each staff has job descriptions, which outline specific roles and minimum professional and technical requirements.	
A.12 Is there a procurement process manual for goods and works?	There is a procurement procedure manual, which was approved by the Minister of Finance of Mongolia.	
A.13 If there is a manual, is it up to date and does it cover foreign-assisted projects?	The Procurement manual for Works and Goods updated in 2012 and it covers only national public procurement.	
A.14 Is there a procurement process manual for consulting services?	There is a procurement process manual for consulting services, which was approved in 2008 by the Minister of Finance.	
A.15 If there is a manual, is it up to date and does it cover foreign-assisted projects?	A procurement process manual for consulting services is not up to date. It covers only national public procurement.	
PROJECT MANAGEMENT UNIT		
A.16 Is there a fully (or almost fully) staffed PMU for this project currently in place?	Yes. There is a fully staffed PMU for this project currently in place.	*
A.17 Are the number and qualifications of the staff sufficient to undertake the additional procurement that will be	The PMO itself has only one national specialist. The number and qualifications of the staff insufficient to undertake the additional and	*

QUESTION	RESPONSE ¹	RISK ²
required under the proposed project?	<p>complex procurement that will be required under the proposed project. The PMO are however assisted by external consultants.</p> <p>The PMO has limited capacity. All procurement will be under ADB processes, and the project management consultant will ensure consistency in management reporting. Training in ADB procedures is required during implementation. Prior review will be applied to all ADB-financed contracts to be procured through ICB. Annual financial audits will monitor the integrity of the financial management systems.</p>	
A.18 Does the unit have adequate facilities, such as PCs, internet connection, photocopy facilities, printers etc. to undertake the planned procurement?	PMU have adequate facilities, such as PCs, internet connection, photocopy facilities, printers etc. to undertake the planned procurement.	
A.19 Are there standard documents in use, such as Standard Procurement Documents/Forms, and have they been approved for use on ADB funded projects?	<p>The MOF has developed special Rules and Standard bidding documents for ADB-funded procurement.</p> <p>For national procurement of goods and works, Sample Tender Documents for procurement of works, goods funded by the ADB, revised on 24 June 2016 is in use.</p> <p>For international procurement of goods and works, ADB Procurement guidelines revised on April 2015 and User's guide to Procurement of Works and Plant revised on December 2015 are in use.</p>	*
A.20 Does the agency follow the national procurement law, procurement processes, and guidelines?	Yes, the Procurement department follows the national procurement law, procurement processes, and guidelines.	*
A.21 Do ToRs for consulting services follow a standard format such as background, tasks, inputs, objectives and outputs?	Yes, ToRs for consulting services follow a standard format such as background, tasks, inputs, objectives and outputs.	
A.22 Who drafts the procurement	For national procurements in accordance with	

QUESTION	RESPONSE ¹	RISK ²
specifications?	the PPLM, the Evaluation committee drafts the bidding documents. For projects financed by ADB, the PMU, particularly the procurement specialist drafts the bidding documents with support by the international and national consultants.	
A.23 Who approves the procurement specifications?	It approved by the financier (ADB and EIB)	
A.24 Who in the PMU has experience in drafting bidding documents?	Procurement specialist of the PMU has experience in drafting bidding documents.	*
A.25 Are records of the sale of bidding documents immediately available?	Records of the sale of bidding documents immediately available.	*
A.26 Who identifies the need for consulting services requirements?	PMU, particularly the officer in charge identifies the need for consulting services.	
A.27 Who drafts the Terms of Reference (ToR)	PMU, particularly the officer in charge drafts the Terms of Reference (ToR).	
A.28 Who prepares the request for proposals (RFPs)	PMU, particularly the officer in charge prepares the request for proposals (RFPs).	
B. INFORMATION MANAGEMENT		
B.1 Is there a referencing system for procurement files?	Yes, there is a referencing system for procurement files in accordance with applicable law and regulation of Mongolia.	
B.2 Are there adequate resources allocated to record keeping infrastructure, which includes the record keeping system, space, equipment and personnel to administer the procurement records management functions within the agency?	There are adequate resources allocated to record keeping infrastructure, which includes the record keeping system, space, equipment and personnel to administer the procurement records management functions within the agency.	*
B.3 Does the agency adhere to a document retention policy (i.e. for what period are records kept)?	We abide by law of Mongolian National Archive. By archiving all the bidding documents and contract awarding companies' documents to store them permanently. Expired or unsuccessful bidders' documents are stored at temporary preservation archive.	*
B.4 Are copies of bids or proposals	Yes. One original copies are retained with	

QUESTION	RESPONSE ¹	RISK ²
retained with the evaluation?	evaluation.	
B.5 Are copies of the original advertisements retained with the pre-contract papers?	Yes, they are retained with the pre-contract papers on files and soft copies.	
B.6 Is there a single contract file with a copy of the contract and all subsequent contractual correspondence?	Yes. There a single contract file with a copy of the contract and all subsequent contractual correspondence.	
B.7 Are copies of invoices included with the contract papers?	Copies of invoices are included with the contract papers. After the contract completion, all documents retained at Archive.	
B.8 Is the agency's record keeping function supported by IT?	Yes, it is supported by IT.	
C. PROCUREMENT PRACTICES		
Goods and Works		
C.1 Has the agency undertaken procurement of goods or works related to foreign assistance recently (last 12 months or last 36 months)? If yes, indicate the names of the development partner/s and project/s.	For the last 4 years, Procurement department of Ulaanbaatar City has not undertaken procurement of goods, works and consultancy services related to foreign assistance.	*
C.2 If the answer is yes, what were the major challenges faced by the agency?	-	*
C.3 Is there a systematic process to identify procurement requirements (for a period of one year or more)?	There is a systematic process to identify procurement planning every year in accordance with the Article 48 of PPLM and it is associated with State and City budget.	
C.4 Is there a minimum period for the preparation of bids and if yes, how long?	The procuring entity is obliged to make tender documents available prior to the day of publishing the invitation to tender. There is no any minimum period for the preparation of bids	*
C.5 Are all queries from bidders replied to in writing?	Yes, all queries from bidders replied to in writing.	*
C.6 Does the bidding document state the date and time of bid opening?	Yes. Bidding document states the date and time of bid opening.	*
C.7 Are bids opened in public?	Yes. Bids are opened in public.	*
C.8 Can late bids be accepted?	Late bids cannot be accepted.	*

QUESTION	RESPONSE ¹	RISK ²
C.9 Can bids (except late bids) be rejected at bid opening?	There are no grounds for refusal in any other cases apart from bid delay.	*
C.10 Are minutes of the bid opening taken?	At the opening of tenders, the procuring entity announces and makes relevant notes of tenderers' names, tendering price, if alternatives have been permitted, alternative tendering price, price discounts offered, whether the tender security was submitted or not, and any changes to the tender and/or withdrawal request in accordance with the Article 26.3 of the PPLM.	*
C.11 Are bidders provided a copy of the minutes?	The minutes of bid opening are made available to any interested party, in accordance with the Article 26.5 of PPLM. The read out bid opening prices are recorded and provided to bidders.	*
C.12 Are the minutes provided free of charge?	Yes, minutes are provided free of charge.	*
C.13 Who undertakes the evaluation of bids (individual(s), permanent committee, ad-hoc committee)?	Ad-hoc Evaluation committee undertakes the evaluation of bids.	
C.14 What are the qualifications of the evaluators with respect to procurement and the goods and/or works under evaluation?	Evaluation committee members are specialized in procurement, in accordance with Article 47.6 of PPLM.	*
C.15 Is the decision of the evaluators final or is the evaluation subject to additional approvals?	The Evaluation committee examines and evaluate tenders, prepare an evaluation report, make recommendations to the procuring entity on authorization for contracting, in accordance with Article 47.2.2 of PPLM.	*
C.16 Using the three 'worst-case' examples in the last year, how long from the issuance of the invitation for bids can the contract be awarded?	Bid evaluation can take a long time. In some cases on this project, it took 9 months to finalize bid award.	*
C.17 Are there processes in place for the collection and clearance of cargo through ports of entry?	Generally done on case-to-case basis.	*
C.18 Are there established goods receiving procedures?	Generally done on case-to-case basis.	*
C.19 Are all goods that are received recorded as assets or inventory in a register?	All goods that are received recorded as assets or inventory in a register.	

QUESTION	RESPONSE ¹	RISK ²
C.20 Is the agency/procurement department familiar with letters of credit?	Procurement department is not familiar with letters of credit.	
C.21 Does the procurement department register and track warranty and latent defects liability periods?	The procurement department doesn't register and track warranty and latent defects liability periods. The Municipal Investment Agency is in charge.	
Consulting Services		
C.22 Has the agency undertaken foreign-assisted procurement of consulting services recently (last 12 months, or last 36 months)? (If yes, please indicate the names of the development partner/s and the Project/s.)	For the last 4 years, Procurement department of Ulaanbaatar City haven't undertaken procurement of goods, works and consultancy services related to foreign assistance	*
C.23 If the above answer is yes, what were the major challenges?	-	*
C.24 Are assignments and invitations for expressions of interest (EOIs) advertised?	Yes, assignments and invitations for EOIs are advertised through Mongolian daily newspapers and www.ub.procurement.mn website.	*
C.25 Is a consultants' selection committee formed with appropriate individuals, and what is its composition (if any)?	Yes, a consultants' selection committee is formed with appropriate individuals. Its composition includes chief, members and secretary of the committee.	
C.26 What criteria are used to evaluate EOIs?	EOIs are evaluated in accordance with Clause 36.7 of the Public Procurement Law of Mongolia. Financial and technical qualification and expertise of tenderers are examined and general conditions are assessed, in accordance with the Article 14-16 of PPLM.	
C.27 Historically, what is the most common method used (QCBS, QBS, etc.) to select consultants?	The most common method is QCBS to select consultants.	*
C.28 Do firms have to pay for the RFP document?	Yes, the firms have to pay for the RFP document.	*
C.29 Does the proposal evaluation criteria follow a pre-determined structure and is it detailed in the RFP?	Yes, the proposal evaluation criteria follow a pre-determined structure and is it detailed in the RFP.	*
C.30 Are pre-proposal visits and meetings	If the pre-proposal meetings are defined in the	

QUESTION	RESPONSE ¹	RISK ²
arranged?	Bidding Documents or RFP, then it should be arranged accordingly.	
C.31 Are minutes prepared and circulated after pre-proposal meetings?	Minutes of pre-proposal meeting is prepared and circulated after pre-proposal meetings.	*
C.32 To whom are the minutes distributed?	Minutes distributed to all bidders who are purchased the bidding document or RFP.	*
C.33 Are all queries from consultants answered/addressed in writing?	Yes. All queries are answered and addressed in writing.	*
C.34 Are the technical and financial proposals required to be in separate envelopes and remain sealed until the technical evaluation is completed?	Yes, it is required to be in separate envelopes and remain sealed.	*
C.35 Are proposal securities required?	Proposal securities are required for consultancy services at a cost above 100 million MNT.	*
C.36 Are technical proposals opened in public?	Yes. Technical proposals not opened in public, but in presence of participating consultants.	*
C.37 Are minutes of the technical opening distributed?	Record of proposal received are distributed to consultants present at the technical proposal opening.	*
C.38 -	-	
C.39 Who determines the final technical ranking and how?	Each member of evaluation committee determines the technical ranking and final decision is agreed by the majority of committee members.	*
C.40 Are the technical scores sent to all firms?	Technical scores are sent to all firms. The selected tenderer and other tender participants are informed about this decision along with the reason of non-selection/rejection simultaneously in writing.	*
C.41 Are the financial proposal opened in public?	Yes. Financial proposals are opened in public.	*
C.42 Are minutes of the financial opening distributed?	After the evaluation upon the request of the bidder, the minutes, only covered an evaluation of the bidder, are disclosed.	*
C.43 How is the financial evaluation completed?	Financial evaluation may be assess the following documents submitted by the bidder. These are: <ul style="list-style-type: none"> • statements by a correspondent bank; • tenderer's self-confirmed financial 	*

QUESTION	RESPONSE ¹	RISK ²
	<p>statements, if required, along with an audit opinion;</p> <ul style="list-style-type: none"> • table of consulting staff, remuneration, and other cost estimations; • Reports on tenderer's annual sales of services similar to a given contract executed in up to last five years. <p>The procuring entity selects the bidder who has scored the highest combined technical and financial score of the bidders who have passed the technical proposal criteria.</p>	
C.44 Are face to face contract negotiations held?	Yes. Face to face, contract negotiations are held with consultants.	*
C.45 How long after financial evaluation is negotiation held with the selected firm?	Negotiation will be held with the selected firm within the bid validity date.	
C.46 What is the usual basis for negotiation?	Joint meeting of the Employer and the Consultant with view to reach agreement and contract signing.	
C.47 Are minutes of negotiation taken and signed?	Yes. Minutes of negotiation taken and signed by both parties.	*
C.48 How long after negotiation is the contract signed, on average?	On average, it is 5 working days.	
C.49 Is there an evaluation system for measuring the outputs of consultants?	It is generally defined by the Client on case-to-case basis.	
Payments		
C.50 Are advance payments made?	The procuring entity may make an advance payment to the contractor for making work preparations.	
C.51 What is the standard period for payment included in contracts?	Payment are made against deliverables and work performed usually within 45 days.	
C.52 On average, how long is it between receiving a firm's invoice and making payment?	Payment generally made within 28 days after receiving each invoice.	
C.53 When late payment is made, are the beneficiaries paid interest?	Beneficiaries are paid interest after 15 days from the actual payment date.	
D. EFFECTIVENESS		
D.1 Is contractual performance	Contractual performance is systematically	

QUESTION	RESPONSE ¹	RISK ²
systematically monitored and reported?	monitored by the Employer.	
D.2 Does the agency monitor and track its contractual payment obligations?	Contractual payment obligations monitored and tracked by the Employer.	
D.3 Is a complaints resolution mechanism described in national procurement documents?	Complaints resolution mechanism is as described in Article 54 and 55 of PPLM.	
D.4 Is there a formal non-judicial mechanism for dealing with complaints?	The state administrative body in charge of budget matters (Ministry of Finance) and the Department for Fair Competition and Consumers Protection considers only those complaints submitted prior to signing a contract and issue a ruling in 14 days after receiving the complaint.	
D.5 Are procurement decisions and disputes supported by written narratives such as minutes of evaluation, minutes of negotiation, notices of default/withheld payment?	Procurement decisions and disputes are supported by written narratives such as minutes of evaluation, minutes of negotiation, notices of default/withheld payment.	*
E. ACCOUNTABILITY MEASURES		
E.1 Is there a standard statement of ethics and are those involved in procurement required to formally commit to it?	The bidders follow the instructions of the procurements law and regulations.	*
E.2 Are those involved with procurement required to declare any potential conflict of interest and remove themselves from the procurement process?	Yes. They are required to issue a declaration whether they have any conflict of interest after they are involved in the procurement process and remove themselves from the procurement process if they have potential conflict of interest.	*
E.3 Is the commencement of procurement dependent on external approvals (formal or de-facto) that are outside of the budgeting process?	The commencement of procurement is dependent on external approvals that are outside of the budgeting process.	
E.4 Who approves procurement transactions, and do they have procurement experience and qualifications?	The general budget governor and professional purchasing body approves consolidated plan within 10 working days after budget approval and submit it to the state central administrative	*

QUESTION	RESPONSE ¹	RISK ²
	body in charge of budget matters (Ministry of Finance).	
E.5 Which of the following actions require approvals outside the procurement unit or the evaluation committee, as the case may be, and who grants the approval?		
a) Bidding document, invitation to pre-qualify or RFP	Evaluation Committee grants the approval.	
b) Advertisement of an invitation for bids, pre-qualification or call for EOIs	Evaluation Committee grants the approval.	
c) Evaluation reports	Evaluation Committee grants the approval.	*
d) Notice of award	Employer grants the approval.	*
e) Invitation to consultants to negotiate	Employer grants the approval	
f) Contracts	Employer grants the approval	*
E.6 Is the same official responsible for: (i) authorizing procurement transactions, procurement invitations, documents, evaluations and contracts; (ii) authorizing payments; (iii) recording procurement transactions and events; and (iv) the custody of assets?	In general, the head of the procuring entity is responsible for procurement decisions.	*
E.7 Is there a written auditable trail of procurement decisions attributable to individuals and committees?	The procuring entity has to maintain a procurement file and record for auditing purposes.	*

PROJECT PROCUREMENT RISK ANALYSIS

SL No.	RISK	IMPACT	LIKELIHOOD	STRATEGY
A6, A7, A9, A16, A17, A23, C1, C2, C14, C22, C23	Procurement Department and/or PMU have insufficient qualified staff to efficiently undertake the procurements required to implement the project.	Low	'Unlikely' PMU is already established, and the Procurement Dept. and PMU have adequate qualified staff and access to a public procurement capacity development or professionalization program	Monitor
A19 – A20	The Agency uses practices inconsistent with national procurement law or bidding documents unsuitable for ADB funded procurement.	Low	'Unlikely' the agency follows the national procurement law, procurement processes, guidelines, bidding documents	Monitor
B2 –B3	Record keeping is inadequate to enable internal or external audit of procurement processes.	Low	'Unlikely' the Agency has adequate recordkeeping infrastructure and robust document retention policy.	Monitor
A25, C4 - C12, C24C44, C47, D5, E7	Agency does not promote nondiscriminatory participation, transparent tender processes (including advertisement, tender documentation, tender evaluation, complaints mechanism).	Low	'Unlikely' the Agency uses non-discriminatory, transparent tender processes.	Monitor
C15, E1 – E.6	The Agency has inadequate ethics and anticorruption measures in place.	Low	'Unlikely' if integrity guidelines require self-declarations, if approvals are appropriate and given by qualified, and sufficiently independent officers.	Monitor

ANNEX 2

PROCUREMENT CAPACITY

(For Reference: Adopted from FAM November 2013)

1. The Public Procurement Law (PPL), 2005, sets out the key policies, responsibilities and standards for procurement in the public sector. The sample documents in this prescribe the evaluation, contracting, payment, warranty liability period, among others. Arbitration is not allowed for procurement dispute settlement. Regulations allow for black listing—disbarment—of firms and individuals and if they violate the regulations and agreements.
2. The law requires public notice for all procurement activities above MNT 30 million for goods and consultancy services and above MNT 50 million for works. The Law further differentiates between processes for consulting services and goods and works. There is preference given for locally-produced goods and locally-provided services. The primary method for procurement activities is open competition. Prequalification is required for complex contracts. The procurement laws and regulations also contain provisions for dealing with misconduct—such as fraud and corrupt practices. The Investigation Department and Anticorruption Department are the lead enforcement institutions.
3. The Ministry of Finance (MOF) plays a lead role in guiding procurement policy in the country. The Ministry has developed various procurement-related Manuals and Rules since 2005. More specifically it:
 - (i) Drafts proposals to enhance procurement legislation.
 - (ii) Provides professional and practical advice to the procuring entity on procurement matters.
 - (iii) Drafts and adopts, if the law provides for, policies and procedures, guidelines, instructions, manuals and standard documents pertaining to procurement.
 - (iv) Annually reports to the government on implementation of procurement legislation.
 - (v) Oversees and assesses the procuring entity's procurement procedures.
 - (vi) Consolidates procuring agencies' reports, creates and maintains a national database of procurement and issues consolidated reports and data.
 - (vii) Provides recommendations and opinions on particular issues pertaining to the implementation of the law upon request from legal and supervision authorities.
 - (viii) Defines the level, quality, and standards for procurement related training jointly with the state administrative body for education issues, provide support and assistance in organizing the training.
 - (ix) Maintains a website for disclosing information on procurement, tender announcements and results, and determines the manner of posting the invitation to tender and other information.

- (x) Cooperates with international organizations and other foreign organizations on procurement matters, and plans and coordinates technical assistance.
- (xi) Keeps, oversees, and discloses the register of bodies whose rights to participate in tendering were restricted as specified in the PPL.
- (xii) Defines the conditions and procedures of introducing information technology and electronic devices in procurement activities.
- (xiii) Takes control on procurement activity through its procurement inspectors who are licensed.

4. The MOF has developed special Rules for ADB-funded procurement. There are standard bidding documents that have been approved for use on ADB funded projects. The MOF has adopted several Rules and Regulations on implementation of the PPL, all the documents are acceptable to ADB, and pass the standards of international procurement practices. For national procurement of goods and works, the above PPL and Regulations will be followed. In summary the MOF has developed:

- (i) Rules for procurement funded by IBRD and IDA, 07/01/2013
- (ii) Sample Tender Documents for procurement of goods funded by the ADB, 07/01/2013
- (iii) Sample Tender Documents for procurement of works funded by the ADB, 07/01/2013

5. The National Procurement Agency was established by the Resolution #6 of the Government on 27th August 2012. The Agency is supervised by the Deputy Prime Minister, reports to the Cabinet, and has the mandate to:

Provide with professional supervision for procurement units.

- (i) Unify implementation process practices of PPL and submit its recommendation to the MOF.
- (ii) Keep the website on procurement information, tender selection, invitation, etc.
- (iii) Provide professional training and methodology on procurement for participants and procuring entities.
- (iv) Set up and implement a unified policy to upgrade capacity, technology and software for procuring entities.
- (v) Be responsible for general procurement contracting (long term, three year contracts).

6. The agency is authorized to establish Procurement Units within the *aimags*, the capital city, and the district governor offices. The Heads of Procurement Units of *aimags* and the capital city are appointed by the Governors, in consultation with the National Procurement Agency Head. The District Procurement Unit Head is appointed by District Governor in consultation with the Capital City Governor. The Head of the Procurement Unit should have no criminal record, at

least 10 years of work experience in the civil service, and have at least 3 years experience of work on procurement.

7. MUB has its own Procurement Unit, which was established on 4th January 2013 under Government Resolution #190, 2013, and MUB Governor's Order A/90 to undertake procurement activities on civil works, goods and consultancy services for MUB. The Procurement Unit reports directly to the MUB Governor. Since its establishment it has undertaken only local procurement. At the start of 2013, MUB prepared a Procurement Plan which was approved by Ulaanbaatar Citizen Representative Khural. The Department of Investment of MUB drafts and approves the specifications. Currently, the Procurement Unit has 56 staff, including 31 engineers, 6-professions of business administration, 5 accountants and 8 lawyers.

8. The MUB Procurement Unit is developing manuals for evaluation; for opening tenders; and for anticorruption measures. It has approved and issued a number of internal documents—Internal Labor Rules, Rules for Board Meetings, Rules for Documentation and Internal Control, Rules for Resolution of Citizens' Complaints, Internal Financial Rules, Rules for Office Hours Control, and Rules for Documentation and Archiving.

9. The Ulaanbaatar Governor, through the Department for Investment, identifies the need for consulting services requirements. An Evaluation Committee drafts the ToR based on an MUB Order. The methods and criteria for evaluation of EOIs are specified in the Articles 38-40 of the Law. The evaluation method for selecting consultants is based on qualifications, quality or both, and is pre-defined prior to release of the RFP. *Qualification evaluation method* is used for selecting an individual consultant. The qualification evaluation is based on the consultant's knowledge, expertise, professional level, and other professional skills. In selecting a consulting firm either the *quality evaluation method* or *combined evaluation method* is used. Where a contract involving simultaneous execution of a number of services requiring comprehensive qualification expertise and technical qualification or having interdependence, a consulting firm is selected using the *quality evaluation method*. Financial proposals of the consultants whose tenders were scored at the minimum, or higher, are opened publicly at the fixed time. Scores for technical and financial proposals are added in the proportion set out in the RFP to obtain a total score of quality and price evaluation. The procuring entity negotiates with the highest-rated consultant. During negotiations some requirements to a given service such as required work duration (person-months) for the consultant to work at the field or office, and office supplies may be modified.

10. The Law requires establishing an ad-hoc evaluation committee for every single tender process. Evaluation decision of the committee is final, but approval is required from the procuring agency. The normal length of time between the issuance of the invitation for bids and contact commencement has been less than two months.

11. The assessment of MUB Procurement Agency has identified the following strengths and weakness:

- (i) **Strengths:** Existence of a functioning Procurement Unit with adequate and qualified human resources and independence. The capacity assessment also shows that the MUB Procurement Agency has a record keeping system for procurement activities, and will maintain records for 15 years—in accordance to the Archive Law—for audit purposes and institutional memory.
- (ii) **Weaknesses:** Because of its limited period of existence (just 4 months), the Agency has not yet acquired significant practice in procurement procedures. Capacity to undertake international procurement is rated weak. There is no system of reporting on negotiations.

12. **Table 1** summarizes the recommendations.

Table 1: Recommendations to Improve Procurement

Capacity Constraints	Recommended action	Responsibility and Comment
Specific Recommendations, Project Implementation		
<p>Although the MUB procurement agency has adequate human resources for their internal regular procurement process; there is capacity gap for additional adequate and trained human resources for the PCO.</p> <p>In general, the MUB procurement staff is not properly trained on general procurement processes nor ADB procurement procedures.</p> <p>There is a need to make amendments to the PPL taking control on issues of auditing and the black listing register.</p>	<p>Consultants familiar with PPL—but not with all the regulations issued by the Ministry of Finance, regulations, and international practices—will be recruited to assist MUB Procurement Agency.</p> <p>After setting up the PMO at the MUB, a training program is required for the procurement of goods, works, and services under ADB financed projects.</p> <p>There is a need for training on the development of technical requirements of the bidding documents.</p> <p>There is a need to assist in drafting contents of bidding documents, particularly technical specifications.</p> <p>There is a need to set up evaluation system for selection of consultancy services.</p> <p>There is a need to enhance capacity of the MUB procurement agency.</p> <p>There is a need to assist in setting up system of monitoring the implementation of service</p>	<p>The MUB procurement agency, with financial assistance from ADB, should recruit a consultant to provide technical support in procurement process since initial stage of program implementation.</p> <p>The PMO, in coordination with the MUB and ADB, needs to organize a training program on procurement works in the PMO.</p> <p>The PPL obligates the MOF to maintain a register of black listed companies, but in practice this seldom happens.</p>

Capacity Constraints	Recommended action	Responsibility and Comment
	contracts.	
General Recommendations, Executing Agency Capacity		
<p>The number of staff working on MUB procurement agency is sufficient to carry out procurement works for additional projects but the municipal staff are not trained to carry out procurement according to the ADB Guidelines.</p>	<p>Provide procurement training to the PMO staff to carry out procurement works and accounting according to ADB guidelines.</p> <p>Hire a procurement consultant to provide necessary support, especially in the beginning of the program.</p> <p>Heads of the Divisions should be trained and certified by specialized training institutions: ISO 9001, ISO 9002, ISO 9003, ISO 10845.</p>	<p>The MUB procurement agency has to hire experienced staff involved in procurement works and should hire a consultant to provide technical support especially in the beginning of the program.</p>
General Recommendations, Procurement Environment		
<p>Absence of procurement accreditation program</p>	<p>Prepare a national procurement operation manual.</p> <p>Provide procurement training, professional support, and develop procurement capacity by establishing a procurement accreditation program.</p>	<p>The MUB procurement agency is responsible to develop and facilitate the implementation this manual.</p> <p>The Government of Mongolia/MUB should initiate a procurement accreditation program.</p>

CONTRIBUTION TO THE ADB RESULTS FRAMEWORK

Level 2 Results Framework Indicators			
No.	(Key Outputs and Beneficiaries)	Targets	Methods / Comments
1	Water supply pipes installed or upgraded (length of network in kilometers)	30.2	Water supply network is installed in two subcenters.
2	Households with new or improved water supply (number)	7,000	Based on the development of the targeted areas.
3	Households with new or improved sanitation (number)	7,000	Based on the development of the targeted areas.
4	Roads built or upgraded—provincial, district, and rural roads (kilometers)	7.08	Road network is built and/or improved in the targeted areas.

Source: Asian Development Bank estimates.

ECONOMIC ASSESSMENT FOR PROJECT 2

1. The economic analysis of subprojects was conducted in accordance with the Asian Development Bank's (ADB) *Guidelines for the Economic Analysis of Projects, Framework for the Economic and Financial Appraisal of Urban Development Sector Projects*, and *Handbook for Integrating Risk Analysis in the Economic Analysis of Projects*. The economic analysis for Tranche 2 subprojects basically follows the methodology adopted in Tranche 1 (or Project 1) of the Ulaanbaatar Urban Services and Ger Areas Development Investment Program¹ for the roads, water supply and sewerage, and heating subprojects.

2. The estimated costs and benefits of the subprojects were valued at their economic prices using domestic price numeraire which adjusts border prices to the equivalent domestic values using the shadow exchange rate factor of 1.01. There is considerable underemployment in Ulaanbaatar for unskilled labor, hence the conversion factor of 0.8 and 1.0 were applied to unskilled and skilled labor, respectively.²

3. Capital and recurrent operation and maintenance (O&M) costs, inclusive of physical contingencies, in constant 2016 prices, were also converted into economic costs by subtracting all transfer payments, including taxes and duties, and applying the appropriate conversion factors. Capital costs were estimated based on the concept designs prepared during the feasibility studies. Annual costs and benefits were evaluated over a 20-year period (2016–2036), allowing for a 4-year construction period starting in 2019, followed by a benefit period of 16 years.

4. **Urban roads improvements.** The proposed road improvements in Denjiin subcenter will involve the construction of a 2.09 kilometer (km) paved road (width of 11.6 meters [m]) with a 10.6 m bridge (width of 11.6 m), and a 1.3 km ring road (width of 20.0 m) with a 30 m bridge (width of 20.0 m). For Dambadarjaa subcenter, a 2.75 km paved road (width of 11.6 m), a 0.94 km paved road (width of 6.0 m), and an 80.0 m bridge (width of 11.6 m) will be constructed.

5. The benefits from the roads and other related urban improvements, such as street lighting and green space, were estimated using the annualized rental benefits from the use of the land surrounding the improved roads. Anticipated economic benefits were mainly quantified by determining the incremental increase in the potential annualized rental benefits from the use of the land surrounding the improved roads. For each subcenter, leasable spaces were estimated by taking 25% of the areas of economic and commercial influence of the proposed urban roads improvement. These areas were assumed to be 50% of the land within a 20-meter radius of the planned urban roads. An average lease price of \$3.8 per square meter (m²) per month was subsequently used to determine the annualized rental benefits, which were assumed to increase by 5% each year in accordance with the planned development in the areas.³ In

¹ ADB. 2013. *Feasibility Study Report on the Ulaanbaatar Urban Services and Ger Areas Development Investment Program*. Consultant's report. Manila (TA 7970-MON).

² These conversion factors are consistent with similar projects of the same nature in Mongolia. For example, see ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to Mongolia for the Regional Improvement of Border Services Project*. Manila., which estimated and used a shadow exchange rate factor of 1.01 following the methodology recommended by A. Lagman-Martin. 2004. *Shadow Exchange Rates for Project Economic Analysis: Towards Improving Practice at the Asian Development Bank*. Economic Relations Division Technical Note, No. 11: Asian Development Bank.

³ As of September 2016, the average rent for a one-bedroom apartment outside the Ulaanbaatar city center is \$383.71 (www.numbeo.com). For a 40 m² apartment, this translates to \$9.6/m² per month. For a conservative estimate, only 40% of this lease price (or \$3.8/m² per month) was used in the calculation. Under Tranche 1, an average lease price of \$7/m² per month and an assumed 5% annual increase were used in the calculation.

addition, the vehicle operating cost (VOC) savings were calculated by assuming that 30% of the projected subcenter population owned cars and that savings amounting to \$124/year,⁴ increasing at an annual rate of 5%, will be generated with the improved road conditions.

6. The results of the economic evaluation (Table A6.1) indicate that the base case economic internal rate of return (EIRR) of 28.23% and 25.43% for Denjiin and Dambadarjaa, respectively, are both higher than ADB's economic opportunity cost of capital (EOCC) of 12%, which show that both road subprojects can be considered economically viable.

7. Sensitivity analysis was also undertaken to further test the economic viability of the road subprojects. The results indicate that the EIRRs are most vulnerable to the delay in the realization of the benefits from the subprojects but the EIRRs are still higher than the 12% hurdle rate (EIRRs of 23.89% and 21.55% for Denjiin and Dambadarjaa, respectively). Capital costs will have to increase by 97% in Denjiin and 84% in Dambadarjaa, while benefits will require reduction of 81% in Denjiin and 70% in Dambadarjaa, for the EIRRs to drop to the EOCC (12% hurdle rate).

Table A6.1: Economic Evaluation of Urban Roads Improvements

Base Case/Sensitivity Scenario	Denjiin Urban Roads	Dambadarjaa Urban Roads
Base Case EIRR (%)	28.23%	25.43%
Sensitivity Tests		
Case 1: Capital cost +10%		
EIRR	26.55%	23.83%
Switching value	96.59	83.91
Sensitivity indicator	1.04	1.19
Case 2: O&M cost +10%		
EIRR	28.13%	25.32%
Switching value	1,570.00	1,180.00
Sensitivity indicator	0.06	0.08
Case 3: Benefits -10%		
EIRR	26.23%	23.50%
Switching value	81.02	69.65
Sensitivity indicator	1.23	1.44
Case 4: Capital and O&M costs +10%; Benefits -10%		
EIRR	24.49%	21.82%
Case 5: Benefits delayed by 1 year		
EIRR	23.89%	21.55%

EIRR = economic internal rate of return, O&M = operation and maintenance.

Source: Asian Development Bank.

8. **Water supply and sewerage improvements.** The proposed water supply and sewerage improvements in Denjiin subcenter will involve the construction of 5.6 km piped water distribution network and 5.2 km sewerage network. Meanwhile, the improvements in Dambadarjaa will involve the construction of 3.5 km piped water distribution network and 4.6 km sewerage network. The construction of new piped water distribution network and sewerage network in Denjiin and Dambadarjaa subcenters aims to (i) enhance the quality of life of the people living in the areas; (ii) decrease the incidence of diseases related to scarce water supply and sanitation infrastructure; (iii) encourage local business and economic development; and (iv) attract new settlers and real estate investors.

⁴ The VOC savings are based on the assumptions used in Tranche 1. Interviews and focus group discussions conducted by Tranche 1 consultants indicated that a monthly VOC savings of \$175/car could be potentially generated by improving the road network in these *ger* areas. The VOC savings was updated to reflect the current exchange rate of \$1:MNT2,000 (while the 2013 exchange rate was \$1:MNT1,420). The updated VOC saving is \$124/car using the current exchange rate.

9. For the water supply improvement subprojects, the benefits were derived from two major sources: (i) the benefits from incremental water sales calculated according to the willingness-to-pay (WTP) of the consumers, existing water demand, and water demand projections; and (ii) non-incremental water sales benefits equivalent to the resource savings and income saved by the water consumers by obtaining water from alternative sources. The socioeconomic and WTP survey conducted showed that households were willing to pay MNT15,568 and MNT17,000 per month for improved water services in Denjiin and Dambadarjaa, respectively. This WTP amount was used in calculating the benefits from incremental water sales. In addition, the resource cost savings estimated at MNT17,675 were based on the socioeconomic survey results which indicated that households took about 30 minutes three to four times a week to access water from kiosks, delivery trucks, and other private sources. The resource cost savings were used in the calculation of non-incremental water sales benefits.

10. For sewerage improvements, benefits were quantified through (i) reduced health risks and water-related diseases from savings in the Disability Adjusted Life Years (DALY), and (ii) savings in medical expenses of households who are exposed to soil pollution through untreated groundwater. A DALY is an indicator of life expectancy combining mortality and morbidity into one summary measure of population health to account for the number of years lived in less than optimum health. One DALY is equal to 1 year of healthy life lost. In calculating the annual economic value of a DALY, the approach of the World Health Organization (WHO), which equates the DALY to a country's gross national income (GNI) per capita, has been adopted. Mongolia's GNI per capita in 2015 is \$3,830.⁵ Based on the global burden of disease approach of WHO, the estimated burden of diarrhea in Mongolia in terms of DALYs is equivalent to 18 days per 1,000 capita per year for all ages.⁶ For a conservative estimate, only 20% of the DALYs (or 3.6 days per 1,000 capita per year) was adopted in the calculation. The calculated saving in DALY was attributed to the proposed sewerage services. For the savings of households, 10% of their monthly medical expenses were attributed to waterborne diseases. Based on the socioeconomic survey results, the average household annual medical expenses amounted to MNT375,922.

11. The resulting base case EIRRs for the water supply and sewerage subprojects in Denjiin and Dambadarjaa subcenters are higher than the 12% hurdle rate, with EIRRs of 28.83% and 26.97% for water supply, and 27.13% and 17.26% for sewerage (Table A6.2). Meanwhile, the sensitivity analysis indicates that for the water supply subprojects in Denjiin and Dambadarjaa, the EIRRs are most sensitive to 10% increase in both the capital and O&M costs with 10% reduction in benefits, with EIRRs of 26.34% and 24.55%, respectively. For the sewerage subproject in Denjiin, the EIRR is most sensitive to the delay in the realization of benefits by 1 year with EIRRs of 23.0%. For the sewerage subproject in Dambadarjaa, the EIRR is most sensitive to 10% increase in capital and O&M costs with 10% reduction in benefits, with an EIRR of 14.20%.

Table A6.2: Economic Evaluation of Water Supply and Sewerage Improvements

Base Case/Sensitivity Scenario	Denjiin Water Supply	Dambadarjaa Water Supply	Denjiin Sewerage	Dambadarjaa Sewerage
Base Case EIRR (%)	28.83%	26.97%	27.13%	17.26%
Sensitivity Tests				
Case 1: Capital cost +10%				

⁵ GNI per capita in current US dollars based on World Bank data. <http://data.worldbank.org/country/mongolia>

⁶ Based on WHO (2014) Estimated DALYs by Cause, Sex, and WHO Member State (1), 2012 at http://www.who.int/healthinfo/global_burden_disease/en/

Base Case/Sensitivity Scenario	Denjiin Water Supply	Dambadarjaa Water Supply	Denjiin Sewerage	Dambadarjaa Sewerage
EIRR	27.72%	25.96%	25.63%	16.10%
Switching value	151.50	147.50	100.49	45.49
Sensitivity indicator	0.66	0.68	1.00	2.20
Case 2: O&M cost +10%				
EIRR	28.74%	26.81%	26.91%	16.92%
Switching value	1,961.70	954.30	669.39	158.98
Sensitivity indicator	0.05	0.10	0.15	0.63
Case 3: Benefits -10%				
EIRR	27.51%	25.69%	25.23%	15.63%
Switching value	127.90	116.60	79.77	32.39
Sensitivity indicator	0.78	0.86	1.25	3.09
Case 4: Capital and O&M costs +10%; Benefits -10%				
EIRR	26.34%	24.55%	23.58%	14.20%
Case 5: Benefits delayed by one year				
EIRR	27.04%	25.03%	23.00%	14.43%

EIRR = economic internal rate of return, O&M = operation and maintenance.

Source: Asian Development Bank.

12. **Heating services expansion.** For heating services, the major benefits considered include (i) reduced health risks from pollution measured through savings in the DALY; and (ii) medical savings of households from improved air quality in the *ger* areas. In a 2012 World Bank study, it was concluded that individual household coal-fired heating appliances, such as stoves and small furnaces used in the *ger* areas, contributed as much as 65% of the air pollution in Ulaanbaatar. Hence, based on the global burden of disease approach of WHO, the estimated burden of respiratory infections in Mongolia in terms of DALYs is equivalent to 49.8 days per 1,000 capita per year for all ages. For a conservative estimate, only 30% of the DALYs (or 14.94 days per 1,000 capita per year) was adopted in the calculation. The calculated saving in DALYs was attributed to the proposed heating services, which would allow households to switch to more environment-friendly and less air polluting heating technology. For the savings of households, 20%–30% of their monthly medical expenses were attributed to outdoor pollution. Using the socioeconomic survey results, the average household annual medical expenses amounted to MNT375,922.

13. The resulting base case EIRRs for the heating subprojects in Denjiin and Dambadarjaa are higher than the 12% EOCC (19.04% and 21.53% EIRR for Denjiin and Dambadarjaa, respectively), indicating that the subprojects are economically viable (Table A6.3). The sensitivity analysis results indicate that the EIRRs are most sensitive to the increase in capital and O&M costs with 10% reduction in benefits for Denjiin (EIRR of 15.77%) and to the delay in the realization of benefits by 1 year for Dambadarjaa (EIRR of 18.16%).

14. Economic evaluation was also undertaken for the heating subprojects in Selbe and Bayankhoshuu. While both subcenters were part of Tranche 1, additional heating plants will be constructed in Selbe and Bayankhoshuu under Tranche 2—a 48 megawatt (MW) heating plant in Selbe that will supply to North Selbe (30 MW) and Dambadarjaa (18 MW); and a 32.5 MW heating plant in Bayankhoshuu.

15. The economic analysis for the heating services in Selbe and Bayankhoshuu done under Tranche 1 were updated such that the costs of the new or additional heating plants were added in the analysis. Meanwhile, the cost estimates used under Tranche 1 for the piping network, heating service connections, and detailed engineering, which were in 2013 prices, were converted to 2016 prices by applying inflation factors.

16. The resulting base case EIRRs for the heating services in Selbe and Bayankhoshuu are higher than the 12% EOCC (20.07% and 15.22% for Selbe and Bayankhoshuu, respectively). The sensitivity analysis results indicate that the EIRRs are most sensitive to the delay in the realization of benefits by 1 year for Selbe (EIRR of 16.96%) and to the increase in capital and O&M costs with 10% reduction in benefits for Bayankhoshuu (EIRR of 12.33%).

Table A6.3: Economic Evaluation of Heating Services Expansion

Base Case/Sensitivity Scenario	Denjiin Heating	Dambadarjaa Heating	Selbe Heating	Bayankhoshuu Heating
Base Case EIRR (%)	19.04%	21.53%	20.07%	15.22%
Sensitivity Tests				
Case 1: Capital cost +10%				
EIRR	17.81%	20.36%	18.91%	14.21%
Switching value	57.21	80.98	69.82	32.00
Sensitivity indicator	1.75	1.23	1.43	3.13
Case 2: O&M cost +10%				
EIRR	18.69%	21.26%	19.77%	14.84%
Switching value	202.98	343.75	267.66	82.25
Sensitivity indicator	0.49	0.29	0.37	1.17
Case 3: Benefits -10%				
EIRR	17.31%	19.94%	18.47%	13.70%
Switching value	40.72	59.83	50.52	21.24
Sensitivity indicator	2.46	1.67	1.98	4.71
Case 4: Capital and O&M costs +10%; Benefits -10%				
EIRR	15.77%	18.53%	17.04%	12.33%
Case 5: Benefits delayed by 1 year				
EIRR	15.83%	18.16%	16.96%	12.52%

EIRR = economic internal rate of return, O&M = operation and maintenance.

Source: Asian Development Bank.

17. **Socioeconomic facilities.** The proposed socioeconomic facilities in Denjiin consist of (i) a 3,000 m² community development service center (CDSC), including a 1,000 m² transition house and a 500 m² open area with solar panel system; (ii) a 1,200 m² kindergarten with open space and solar panel system that can accommodate 100 students; and (iii) a 3,770 m² urban park with green area and a public toilet. In Dambadarjaa, the proposed socioeconomic facilities comprise the following: (i) a 2,000 m² CDSC, including a 500 m² open area with solar panel system; (ii) a 1,200 m² kindergarten with open space and solar panel system that can accommodate 100 students; and (iii) an 800 m² sports complex with 6,000 m² of open space. The proposed socioeconomic facilities in Bayankhoshuu consist of: (i) a 1,200 m² kindergarten with open space and solar panel system that can accommodate 100 students; (ii) a 20,000 m² ravine park; and (iii) a 3,200 m² sports complex with 2,000 m² of open space. Meanwhile, in Selbe, the proposed socioeconomic facility is a 1,200 m² kindergarten with open space and solar panel system that can also accommodate 100 students. The economic benefits that can be attributed to the proposed socioeconomic facilities are discussed below.

18. **Increased employment opportunities.** The proposed socioeconomic facilities will create employment opportunities for the residents of these subcenters as well as for people from nearby communities. It is estimated that the CDSCs in Denjiin and Dambadarjaa would be able to train at least 100 persons each year through market-oriented training, business incubator programs, and business development training, which would translate to gainful employment for these trained individuals. Meanwhile, the kindergartens in Denjiin, Dambadarjaa, Bayankhoshuu, and Selbe will employ at least five teachers (1 teacher per 20 pupils). At least two maintenance personnel will also be employed to clean up and maintain

the CDSC facilities, as well as the urban parks in Bayankhoshuu and Denjiin. During the stakeholder consultations, it was also found out that the lack of kindergartens is a major reason that keeps women out of the labor force. Therefore, with the kindergarten, mothers can leave their children in the schools, go to their workplace, and boost their household income. At least 50% of the mothers (50 out of 100 mothers) are assumed to be able to attend to their work because of the kindergartens.

19. **Increased property values.** Studies have shown that parks have a positive impact on nearby residential property values. Other things being equal, most people are willing to pay more for a home close to a nice park. Economists call this phenomenon "hedonic value." One of the factors affecting hedonic value is the distance of the property from the park. While proximate value can be measured up to 2,000 feet from a large park, most of the value is within 500 feet from the park. Excellent parks tend to add 15% to the value of a proximate dwelling but 5% can be used as an average.⁷ As applied to the proposed urban park in Denjiin, the positive impact of the park in terms of property values is assumed to be felt up to a distance of 152 m (500 feet) from the park (which is almost triangular in shape). This covers an estimated area of 39,709 m² around the park consisting of residential areas on two sides and the market area on one side with an approximate total property value of \$6.45 million. Thus, the 5% increase in property value would be \$323,000. There is also an additional amount of \$26,000 from the annual property tax capture due to the park. The estimated annual benefit from increased property value due to the Denjiin urban park is, therefore, \$348,000. For Bayankhoshuu, the 5% increase in property value due to the ravine park amounts to \$701,000 while the additional property tax capture due to the park is \$56,000 annually. The same concept of increased property values is applied to the proposed sports complex in Dambadarjaa, which covers an area of about 50,282 m² and an estimated annual benefit of \$441,000. Meanwhile, the proposed sports complex in Bayankhoshuu will have an estimated annual benefit of \$1.14 million from increased property values.

20. **Direct use value.** The proposed sports complex with open space in Bayankhoshuu and Dambadarjaa will accommodate basketball and badminton courts, a skating rink, an open market/bazaar area, and a community event venue. Some of the direct uses of the sports complex can be free of charge but the direct use value can still be calculated for purposes of quantifying the economic benefits. The direct use value will come from the use of the venues during sports events, the regular use of sports facilities such as the basketball and badminton courts and skating rink, and the use of open market/bazaar and community event areas.

21. **Health benefits.** Studies have shown the economic burden of physical inactivity. Lack of exercise is shown to contribute to obesity and its many effects. Research also suggests that access to parks can help people increase their level of physical activity (footnote 7). The proposed urban parks in Bayankhoshuu and Denjiin could provide the green open space for physical activities and relaxation. It is assumed that at least 25% of the residents will use the park although people from nearby communities and even tourists may come to visit the urban park. The health benefits will come from savings in medical costs due to improved health or the difference in average medical costs between active and inactive persons. Health benefits can also be attributed to the establishment of sports complexes in Bayankhoshuu and Dambadarjaa wherein at least 25% of the residents are assumed to use the sports complex.

⁷ Harnik and Welle. 2009. *Measuring the Economic Value of a City Park System*. <http://cloud.tpl.org/pubs/ccpe-econvalueparks-rpt.pdf>

22. **Savings to the education system.** A kindergarten is the only socioeconomic facility to be put up in Selbe under Tranche 2. To quantify the economic benefits of the project, the results of a study in Wisconsin was adopted, which shows that for every dollar invested in the school, 68 cents would be returned in savings to the education system.⁸ The education system benefits since children progress more efficiently through their schooling as a result of early-childhood programs. Specific fiscal benefits include (i) lower grade retention, (ii) lower special education placement, (iii) higher job satisfaction for teachers, (iv) more teachers retained by the public schools, (v) fewer substitute teachers, (vi) reduced spending on school safety, and (vi) reduced pressure on student-aid services. For a conservative analysis, only 17 cents (25% of savings to the education system cited in the study) was used as savings.

23. The resulting base case EIRRs for the socioeconomic facilities in Denjiin, Dambadarjaa, Bayankhoshuu, and Selbe (15.43%–24.25% EIRR) are higher than the 12% EOCC indicating that the subprojects are economically viable (Table A6.4). The sensitivity analysis results indicate that the EIRRs are most sensitive to the increase in capital and O&M costs plus 10% reduction in benefits with EIRRs of 18.25%, 13.73%, and 12.01% for Denjiin, Dambadarjaa Selbe, respectively. Meanwhile, the EIRR in Bayankhoshuu is most sensitive to delay in the realization of benefits by 1 year.

Table A6.4: Economic Evaluation of Socioeconomic Facilities

Base Case/Sensitivity Scenario	Denjiin Socio-economic Facility	Dambadarjaa Socio-economic Facility	Bayankhoshuu Socio-economic Facility	Selbe Socio-economic Facility
Base Case EIRR (%)	21.46%	16.74%	24.25%	15.43%
Sensitivity Tests				
Case 1: Capital cost +10%				
EIRR	20.06%	15.46%	22.55%	14.00%
Switching value	67.42	37.20	72.08	23.94
Sensitivity indicator	1.48	2.69	1.39	4.18
Case 2: O&M cost +10%				
EIRR	21.34%	16.59%	24.13%	15.25%
Switching value	800.00	328.00	1,000.00	192.00
Sensitivity indicator	0.13	0.31	0.10	0.52
Case 3: Benefits -10%				
EIRR	19.75%	15.14%	22.20%	13.61%
Switching value	55.23	29.59	59.77	18.83
Sensitivity indicator	1.81	3.38	1.67	5.31
Case 4: Capital and O&M costs +10%; Benefits -10%				
EIRR	18.25%	13.73%	20.42%	12.01%
Case 5: Benefits delayed by 1 year				
EIRR	18.30%	14.19%	20.40%	12.94%

EIRR = economic internal rate of return, O&M = operation and maintenance.

Source: Asian Development Bank.

⁸ Belfied et al. 2005. *An Economic Analysis of Four-Year-Old Kindergarten in Wisconsin: Returns to the Education System*. <https://dpi.wi.gov/sites/default/files/imce/early-childhood/pdf/PEW%20economic%20report%202005.pdf>

FINANCIAL ASSESSMENT FOR PROJECT 2

1. The financial due diligence was undertaken according to Asian Development Bank's (ADB) *Guidelines on the Financial Management and Analysis of Projects*. The financial analysis covers revenue-generating subprojects, including water supply and sewerage, and heating systems. The financial internal rate of return (FIRR) was calculated and compared with the weighted average cost of capital (WACC). Meanwhile, financial viability analysis was undertaken for non-revenue generating subprojects, including road improvements and socioeconomic facilities to determine if the Municipality of Ulaanbaatar (MUB) has the capability to finance the capital investment cost, as well as the operation and maintenance (O&M) costs of the subprojects.

2. **Revenue-generating components.** The financial evaluation of the revenue-generating components involves the determination of the capital and O&M costs of the subprojects. The projected tariff during the life of the project and the expected revenue streams using the project tariff were also determined. Financial indicators, such FIRR and financial net present value, will determine the financial viability of the subprojects. Sensitivity analysis was also undertaken to determine the robustness of the subprojects given the increase or decrease of project costs and benefits.

3. **Financial analysis of water supply and sewerage subprojects.** The total cost of water supply and sewerage subprojects in Denjiin is \$3.11 million, consisting of \$2.02 million for the water supply component (including water connection cost) and \$1.09 million for sewerage component (including secondary pipeline connection cost). Meanwhile, the assumed combined tariff for water and sewerage is \$0.32 per cubic meter (m^3). This assumed tariff is based on the prevailing tariff for water of MNT420/ m^3 (\$0.21/ m^3) and for sewage disposal of MNT220/ m^3 (\$0.11/ m^3)—or a combined tariff of \$0.32/ m^3 . The \$0.32/ m^3 combined tariff is assumed to increase by 5% every 5 years.¹ In the financial analysis, it is assumed that only 50% of the tariff can be attributed to proposed water supply and sewerage subprojects, which consist mainly of water supply and sewerage pipelines and connections. The other 50% of the tariff is assumed to be attributed to other components, such as water supply source, water treatment plant, and wastewater treatment plant.²

4. The resulting FIRR confirms the marginal financial viability of the water supply and sewerage subprojects in Denjiin (Table A7.1), with a base case FIRR of 2.90%, which is higher than the WACC of 2.17%. Sensitivity analysis results also indicate that the FIRR is sensitive in four cases: (i) 10% increase in O&M costs (FIRR of 1.85%); (ii) 10% decrease in benefits (FIRR of 1.32%); (iii) 10% increase in capital and O&M costs with 10% decrease in benefits (FIRR of 0.28%); and (iv) delay in the realization of project benefits by 1 year (FIRR of -1.76%). In all four cases, the FIRR is lower than the 2.17% WACC.

¹ The 2016 tariff for water (MNT420/ m^3) is 47% higher than the 2013 tariff (MNT286/ m^3), while the 2016 tariff for sewerage (MNT220/ m^3) is 50% higher than the 2013 tariff (MNT147/ m^3). Hence, the assumed 5% increase in tariff every 5 years can be considered conservative.

² The proportion of costs attributed to project components is based on the data from other water supply and sewerage projects.

Table A7.1: Financial Evaluation of Water Supply and Sewerage Improvements (Denjiin)

Item	FIRR
Base Case Scenario	2.90%
Case 1: 10% increase in capital cost	2.46%
Case 2: 10% increase in O&M cost	1.85%
Case 3: 10 % decrease in benefits	1.32%
Case 4: 10 % increase in capital + O&M costs; 10% decrease in benefits	0.28%
Case 5: Delay in project benefits by 1 year	-1.76%
Weighted average cost of capital	2.17%
Proposed initial tariff rate (water and sewerage)	\$0.32/m ³
Current rate of water per m ³ in <i>ger</i> area kiosks	\$0.45/m ³
Current rate of metered apartment	\$0.32/m ³
Willingness-to-pay for monthly consumption	\$7.78/month

FIRR = financial internal rate of return, m³ = cubic meter, O&M = operation and maintenance.

Source: Asian Development Bank.

5. For Dambadarjaa, the total cost of water supply and sewerage subprojects is \$2.08 million, consisting of \$1.10 million for the water supply component (including water connection cost) and \$0.98 million for the sewerage component (including secondary pipeline connection cost). The assumed combined tariff for water and sewerage is \$0.32/m³, which will increase by 5% every 5 years. In the financial analysis, it is assumed that only 50% of the tariff can be attributed to proposed water supply and sewerage subprojects, which consist mainly of water supply and sewerage pipelines and connections. The other 50% of the tariff is assumed to be attributed to other components, such as water supply source, water treatment plant, and wastewater treatment plant.

6. The results of the financial evaluation indicate a base case FIRR of 4.40%, which is higher than the WACC of 2.17% (Table A7.2). This confirms that the water supply and subprojects in Dambadarjaa can be considered financially viable. The sensitivity analysis indicates that the FIRR is most sensitive to (i) 10% increase in capital and O&M costs with 10% decrease in benefits (FIRR of 1.62%), and (ii) delay in the realization of project benefits by 1 year (FIRR of -0.68%). In both cases, the FIRR is lower than the 2.17% WACC.

Table A7.2: Financial Evaluation of Water Supply and Sewerage Improvements (Dambadarjaa)

Item	FIRR
Base Case Scenario	4.40%
Case 1: 10% increase in capital cost	4.01%
Case 2: 10% increase in O&M cost	3.17%
Case 3: 10 % decrease in benefits	2.68%
Case 4: 10 % increase in capital + O&M costs; 10% decrease in benefits	1.62%
Case 5: Delay in project benefits by 1 year	-0.68%
Weighted average cost of capital	2.17%
Proposed initial tariff rate (water and sewerage)	\$0.32/m ³
Current rate of water per m ³ in <i>ger</i> area kiosks	\$0.45/m ³
Current rate of metered apartment	\$0.32/m ³
Willingness-to-pay for monthly consumption	\$8.50/month

FIRR = financial internal rate of return, m³ = cubic meter, O&M = operation and maintenance.

Source: Asian Development Bank.

7. **Financial analysis of heating subprojects.** The financial evaluation was combined for the Denjiin and Dambadarjaa heating services subprojects. The combined cost for the Denjiin and Dambadarjaa heating services subprojects is \$23.61 million—consisting of \$13.84 million for heating supply network, a heating plant, and substations in Denjiin; and \$4.21 million heating

supply network and substations in Dambadarjaa (plus \$5.56 million as part of the cost of the heating plant in Selbe that will supply heat to Dambadarjaa). The assumed tariffs are \$5.60 per megawatt (MW) for households and \$11.21 per MW for institutions. The tariff is assumed to increase by 30% every 5 years.³

8. The results of the financial evaluation indicate that the subprojects are financially viable with an FIRR of 5.01%, which is higher than the WACC of 2.17%. The sensitivity analysis indicates that the FIRR is most sensitive to a 1 year delay in the realization of project revenues that will result in an FIRR of 2.38%.

Table A7.3: Financial Evaluation of Heating Services (Denjiin and Dambadarjaa)

Item	FIRR
Base Case Scenario	5.01%
Case 1: 10% increase in capital cost	4.49%
Case 2: 10% increase in O&M cost	4.48%
Case 3: 10 % decrease in benefits	3.89%
Case 4: 10 % increase in capital + O&M costs; 10% decrease in benefits	2.87%
Case 5: Delay in project benefits by 1 year	2.38%

FIRR = financial internal rate of return, O&M = operation and maintenance.

Source: Asian Development Bank.

9. **Non-revenue generating components.** A financial viability and sustainability analysis was conducted for nonrevenue-generating projects, like urban roads and socioeconomic facilities. The objective is to evaluate the financial impacts of these projects on the cash flow of MUB to determine whether the executing agency or project proponent can provide the capital investment and recurrent budgetary requirements.

Table A7.4: Fiscal Projections for the Municipality of Ulaanbaatar (2016–2020)

Item	Actual (MNT billion)				Projection (MNT billion)			
	2013	2014	2015	2016	2017	2018	2019	2020
Recurrent/operating expenditure	330.1	385.1	429.6	490.2	559.4	638.3	728.3	831.0
Total operating revenues	433.0	459.7	466.3	532.1	607.1	692.7	790.5	902.0
Surplus	102.9	74.6	36.7	41.8	47.7	54.5	62.2	70.9
Government fund required for urban roads subprojects ^a					0.6	1.8	2.4	1.2
Government fund required for socioeconomic facilities ^b					–	–	–	–
Project government fund/operating expenditure					0.11%	0.28%	0.33%	0.14%

^a Figures shown for 2017–2020 are the capital investment share of the Municipality of Ulaanbaatar (MUB) for Denjiin and Dambadarjaa subprojects (40% of capital investments). Loan repayments from MUB for the Asian Development Bank (ADB) ordinary capital resources loan will be from 2022 until 2041 (MNT4.44 billion per year). Operating and maintenance costs will be MNT0.45 billion per year (2021–2036).

^b Socioeconomic facilities will be 100% funded by ADB concessional ordinary capital resources. Loan repayments from MUB will be from year 2022 until 2041 (MNT3.58 billion per year).

Source: ADB estimates.

10. As shown in Table A7.4, the urban roads and socioeconomic facilities subprojects to be implemented in Denjiin and Dambadarjaa will have minimal impact on MUB's budget. The budgetary requirements for the subprojects are about 0.11% to 0.33% of the annual operating expenditure requirements of MUB. The additional budgetary requirement for loan repayments

³ Based on the data provided by the Energy Regulatory Commission, the heating tariff increased by 33% in 2015 compared to the 2013 tariff.

from MUB for the ADB loans (from ordinary capital resources and concessional ordinary capital resources) from 2022 to 2041, and for O&M costs for roads from 2021 to 2036 would represent about 0.89% (at the maximum) of the total annual operating expenditure (MNT4.9 billion per year for urban roads and MNT3.6 billion per year for socioeconomic facilities) from 2021 to 2041. Hence, the fiscal impact analysis indicates that the MUB has adequate counterpart funding during implementation and debt servicing and O&M capacity during operation period.

11. **Affordability and willingness-to-pay analysis.** Willingness-to-pay (WTP) surveys were conducted in Denjiin and Dambadarjaa in April 2016. An affordability analysis was also undertaken based on the survey results. The proposed combined tariff for water and sewerage services of \$0.32/m³ is deemed affordable and would cover 1.3%–1.9% of the monthly income of the two lowest income groups in Denjiin and Dambadarjaa. For heating services, the proposed tariff of \$5.6 per megawatt-hour (MWh) is also deemed affordable and would comprise 2.0%–2.8% of the monthly income of the two lowest income groups. Therefore, the combined tariffs for water and sewerage, and heating services comprise from 3.28% to 4.69% of the monthly income of the two lowest income groups. This is still affordable from the point of view of low income households since the rule of the thumb is that expenses for utilities should not go beyond 5% of the monthly income of the lowest income households.

12. Assuming that the average water consumption will increase to 10.8 m³ per household per month (from less than 3 m³ per household per month) due to the availability of piped water supply in both Denjiin and Dambadarjaa, the amount that the households are willing to pay for improved water and sewerage services (\$7.78 and \$8.50) would translate to \$0.72/m³ and \$0.79/m³ of water consumed. The proposed combined tariff for water and sewerage services of \$0.32/m³ of water consumed is, therefore, within the limit set by residents for their water and sewerage expenses.

13. For improved heating services, households are willing to pay \$12.89 and \$11.12 per month for Denjiin and Dambadarjaa, respectively. Assuming that the average consumption per month per household is 0.94 MWh and the proposed tariff is \$5.6 per MWh, the monthly expenses per household for heating services is \$5.26. This is deemed to be acceptable since this is lower than the limit set by households for heating services of \$12.89 and \$11.12 per month for Denjiin and Dambadarjaa, respectively.

14. Converting to piped water supply from the current water supply from kiosks, delivery trucks, and other private sources would constitute savings for households in *ger* areas. The WTP survey indicates that households pay on the average \$4.73 and \$5.66 per month in Denjiin and Dambadarjaa, respectively, for water supply from current sources. With the proposed piped water supply, household expenses would go down to \$3.46 per month and this would cover not only the cost of water supply but also of sewerage services.

15. Connection to metered heating services would also mean savings for households. The WTP survey shows that households spend \$129 and \$102 per month in Denjiin and Dambadarjaa, respectively, for the use of coal-fired stove. With the shift to metered heating, households would spend only about \$5.26 per month or less than 10% of what they are currently paying for the coal-fired stove.

UPDATED SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country:	Mongolia	Project Title:	Ulaanbaatar Urban Services and Ger Areas Development Investment Program: Project 2
Lending/Financing Modality:	Multitranche Financing Facility	Department/Division:	East Asia Department/Urban and Social Sectors Division

I. POVERTY AND SOCIAL ANALYSIS AND STRATEGY
Targeting classification: Targeted Intervention—SDG11
<p>A. Links to the National Poverty Reduction and Inclusive Growth Strategy and Country Partnership Strategy</p> <p>The program will improve the living conditions in Ulaanbaatar by establishing a network of livable, competitive, and inclusive subcenters in Ulaanbaatar's <i>ger</i> areas.^a Project 2 is located in two of the smaller, central-north districts of Chingeltei and Sukhbaatar. Both have their roots in the older inner city, but extend well beyond the current built-up limits to include significant portions of undeveloped countryside.</p> <p>The program will support the implementation of the Ulaanbaatar City Master Plan (2030) by upgrading priority <i>ger</i> area subcenters from 2013 to 2023 through three projects.^b The investment program is in line with the Asian Development Bank's (ADB) interim country partnership strategy for Mongolia, 2014–2016, country operations business plan for Mongolia, 2014–2016, ADB's Strategy 2020, Poverty Reduction Strategy, and Urban Operational Plan 2012–2020.^c It is also fully integrated and is compatible with the global Sustainable Development Goals and the original Mongolia Policy Paper on Poverty Reduction, which directly supports the eight millennium development goals and 18 related objectives. It is in line with the millennium development goal-based Comprehensive National Development Strategy of Mongolia 2007 and its City-Wide Pro-Poor <i>Ger</i> Area Upgrading Strategy and Investment Plan.</p>
<p>B. Results from the Poverty and Social Analysis during PPTA or Due Diligence</p> <p>1. Key poverty and social issues. In 2014, 21.6% of the Mongolian population lived below the national poverty line. The poverty level was much higher in rural areas (27%) than in the urban areas (18%). However, poverty reduction was slower in urban areas, especially in Ulaanbaatar (16.4%) where poverty declined by 3% during 2012–2014 compared to 11% between 2010 and 2012. Therefore, the urban areas continued to have the largest share of the poor in Mongolia. Gross domestic product has fallen from 17.5% in 2012 to 2.3% in 2015 driving up unemployment to 11.6% (unofficial rate is higher as only 60% of the economically active were formally engaged and measured). Rural–urban migration accounts for 58% of Ulaanbaatar's annual growth, which adds to the <i>ger</i> area challenges. Ulaanbaatar has an estimated population of 1,445,000 by the end of 2016 based on a 2015 population of 1,396,500; growing at a rate of approximately 3.5%. This is more than twice the national growth rate of 1.5% and higher than the overall urbanization rate of 2.8%. Ulaanbaatar has a long history of informally settled <i>ger</i> areas developing around its more formal center. About 60% (840,000) of Ulaanbaatar's population live in unplanned and underserved informal settlements without water or sewerage connections and highly polluted environment with limited access to social facilities, and limited employment opportunities.</p> <p>2. Beneficiaries. The project will benefit about 200,000 persons with improved access to water supply and sewerage, roads, heating services, kindergarten facilities, transitional housing, business incubator components, parks, and sport complexes. This includes 32,000 residents living in the four subcenters targeted by Tranche 1 and 2 investments. Elderly and disabled people will also directly benefit from targeted improvements to inclusiveness and access to all project facilities. Indirect beneficiaries are the population of Ulaanbaatar City because of the overall impact of the project on the city pollution and urban development.</p> <p>3. Impact channels. The direct impact of the project will be (i) improved access to basic municipal services; (ii) improved access to expanded social facilities and support programs; (iii) increased employment and job opportunities with skills training; and (iv) strengthened community awareness, participation, and voice in decision-making. The indirect impact of the project will be improved economic and social opportunities in the revitalized urban <i>ger</i> areas.</p> <p>4. Other social and poverty issues. Programs in improved civil registration, land registration, skills training, and social welfare benefits are being implemented by the government to help ensure social inclusiveness.</p> <p>5. Design features. The project design responds to issues raised by the poverty and social analysis (PSA). Key design features include (i) creating job opportunities for the poor and women during project construction and operation; (ii) providing skills improvement and business development opportunities through construction of community and business incubator centers; (iii) ensuring a comprehensive information, education, and communication campaign, along with other activities set out in the program's consultation, participation, and communication strategies; and (iv) providing a transitional housing for children and women victims of domestic violence. The actions in the community action plan (CAP), consultation and participation plan (CPP), gender action plan (GAP), and social development action plan (SDAP) will mitigate adverse impacts and increase positive impacts of the project.</p>
C. Poverty Impact Analysis for Policy-Based Lending (Not applicable)

II. PARTICIPATION AND EMPOWERING THE POOR
<p>1. Participatory approaches and project activities. During the project preparation, the PSA was conducted with direct and indirect beneficiaries through focus group discussions and key informant interviews. In addition, extensive consultations were held with all relevant stakeholders through workshops, group, and individual meetings. The CAP, CPP, and SDAP were prepared to support participation of beneficiaries and stakeholders throughout detailed design and implementation.</p> <p>2. Community development councils have been established throughout the project area to lead civil society participation. Several nongovernment organizations will eventually be directly involved in project component management, i.e., kindergartens, shelters, incubator services, and support programs based in the project's community development service centers. The action plans detail the special measures prepared under the project.</p> <p>3. Civil society organizations. Through the efforts of United Nations Human Settlements Programme (UN-Habitat), community development councils have been established and will continue to be supported.</p> <p>4. The following forms of civil society organization participation are envisaged during project implementation, rated as high (H), medium (M), low (L), or not applicable (NA) <input checked="" type="checkbox"/> Information gathering and sharing (H) <input checked="" type="checkbox"/> Consultation (H) <input checked="" type="checkbox"/> Collaboration (H) <input checked="" type="checkbox"/> Partnership (H)</p> <p>5. Participation plan. <input checked="" type="checkbox"/> Yes. <input type="checkbox"/> No.</p> <p>The CAP and CPP for the project have been prepared and aim to ensure inclusion of views from a range of interested parties in developing and reviewing respective designs, plans, and activities and help in the resolution of complex issues, gain consensus, and support from stakeholders, reduce problems in implementation, improve project design and increase impacts. The cost for the plans' implementation will be included in the project management cost.</p>
III. GENDER AND DEVELOPMENT
<p>Gender mainstreaming category: Effective gender mainstreaming</p> <p>A. Key issues. According to the PSA findings, low-income women have a high proportion of non-paid domestic work partly due to poor infrastructure requiring the majority of households to hand carry water from kiosks on unpaved, poor condition, and unsafe (muddy, icy, steep, unlit) roads. About 95% of households utilize open pit latrines, which impact both family and community health, especially the children, women, and elderly. Indoor cooking with coal remains the dominant heating and cooking fuel endangering women's health in particular, and contributing to city pollution. Shortage of kindergartens, along with expressed need for business incubator centers and training opportunities, impedes women's ability to seek paid employment and economic independence. According to various studies, 33% of women suffer from domestic violence and there is a significant unmet demand for more women shelters and transitional housing. Also, subcenters lack open public green spaces for socializing; and public safety is threatened due to lack of provision for pedestrians, unsafe public transport stops, and unlit streets.</p> <p>B. Key actions. The GAP (i) incorporates gender mainstreaming actions in the design and implementation of road network, water supply and sanitation, heating system extension, and communication improvements, as well as development of social facilities including women's transitional and shelter housing, multipurpose community development service centers, kindergartens, and public open green spaces; (ii) ensures work place equity, health, safety, and harassment awareness/prevention programs, (iii) ensures development of, and participation in, programs promoting economic independence, including business incubators and related training; and (iv) strengthens roles of women in all levels of decision making bodies. <input checked="" type="checkbox"/> Gender action plan <input type="checkbox"/> Other actions or measures <input type="checkbox"/> No action or measure</p>
IV. ADDRESSING SOCIAL SAFEGUARD ISSUES
<p>A. Involuntary Resettlement Safeguard Category: <input checked="" type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> FI</p> <p>1. Key impacts. An estimated 263 <i>khasaas</i> with 642 entities (residential and commercial) and 3,210 persons are expected to experience subproject related impacts under Project 1. Most affected entities will move back their fences from the edge of their property to accommodate the widening of local roads; others may experience temporary construction impacts to their fences, which will be removed and subsequently replaced following the installation of subterranean infrastructure. Latrines will also be affected, as these are usually situated near property boundaries. There is also the potential to disrupt businesses that households run from their <i>khasaas</i>. For Project 2, there are about 555 entities (residential and commercial) and 2,156 persons who are expected to be affected by the four subcenters. Impacts are similar to those in Project 1.</p> <p>2. Strategy to address the impacts. For Project 1, land acquisition and resettlement plans (LARPs) have been updated for Selbe and Bayankhoshuu subcenters and implementation is ongoing. For Project 2, one LARP was prepared covering the four subcenters based on feasibility study report. It will be updated by subproject once detailed design is available. All LARPs and updates were prepared based on applicable laws of Mongolia and ADB's Safeguard Policy Statement (2009). Affected persons have been and will continue to be provided with clear understanding of potential risks and benefits. A grievance redress mechanism has been established for Project 1 and will be adopted for Project 2. Information, consultation, and participation of affected persons are ongoing and will need to continue through individual, cluster, and public meetings throughout LARP preparation, updating, and implementation process. The resettlement framework for all subprojects under the program has been reviewed and updated. It now reflects the MUB's recent regulation, a more harmonized grievance handling system based on existing practice, new institutional arrangements, and other provisions derived from the updated LARPs from Project 1.</p>

<p>3. Plan or other Actions.</p> <p><input checked="" type="checkbox"/> Resettlement plan</p> <p><input checked="" type="checkbox"/> Resettlement framework</p> <p><input type="checkbox"/> Environmental and social management system arrangement</p> <p><input type="checkbox"/> No action</p>	<p><input type="checkbox"/> Combined resettlement and indigenous peoples plan</p> <p><input type="checkbox"/> Combined resettlement framework and indigenous peoples planning framework</p> <p><input type="checkbox"/> Social impact matrix</p>
<p>B. Indigenous Peoples Safeguard Category: <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI</p> <p>1. Key impacts. The project components are all focused on mid-<i>ger</i> urban areas of Ulaanbaatar. These areas have been in existence for some time and are very heterogeneous in terms of residents' socioeconomic status. The project investments will benefit all residents. No specific communities of ethnic minorities have been identified during the project preparation.</p> <p>Is broad community support triggered? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>2. Strategy to address the impacts. Not applicable.</p> <p>3. Plan or other actions.</p> <p><input type="checkbox"/> Indigenous peoples plan</p> <p><input type="checkbox"/> Indigenous peoples planning framework</p> <p><input type="checkbox"/> Environmental and social management system arrangement</p> <p><input type="checkbox"/> Social impact matrix</p> <p><input checked="" type="checkbox"/> No action</p> <p><input type="checkbox"/> Combined resettlement plan and indigenous peoples plan</p> <p><input type="checkbox"/> Combined resettlement framework and indigenous peoples planning framework</p> <p><input type="checkbox"/> Indigenous peoples plan elements integrated in project with a summary</p>	
<p>V. ADDRESSING OTHER SOCIAL RISKS</p>	
<p>A. Risks in the Labor Market</p> <p>1. Relevance of the project for the country's or region's or sector's labor market, indicated as high (H), medium (M), and low or not significant (L).</p> <p><input checked="" type="checkbox"/> unemployment (L) <input checked="" type="checkbox"/> underemployment (L) <input type="checkbox"/> retrenchment <input checked="" type="checkbox"/> core labor standards (M)</p> <p>2. Labor market impact. Construction activities under the project will employ local labor for skilled and unskilled jobs during construction and operation. The project will provide both long-term and short-term employment. The project includes business incubators for long-term labor market improvement and promotes employment generation in subcenters. The project will provide employment opportunities to women as well.</p>	
<p>B. Affordability. The proposed tariffs for water supply, sewage, and heating services are considered affordable as they are within the limit that low income households are willing to pay.</p>	
<p>C. Communicable Diseases and Other Social Risks</p> <p>1. The impact of the following risks are rated as high (H), medium (M), low (L), or not applicable (NA):</p> <p><input checked="" type="checkbox"/> Communicable diseases (M) <input checked="" type="checkbox"/> Human trafficking (L)</p> <p><input type="checkbox"/> Others (please specify) _____</p> <p>2. Risks to people in project area. An SDAP with specific measures on information, education, and communications campaign related to risks on HIV/AIDS/sexually transmitted infections, among other topics, was prepared and will be incorporated in the updated facility administration manual (FAM) and in the project agreement.</p>	
<p>VI. MONITORING AND EVALUATION</p>	
<p>1. Targets and indicators: The design and monitoring framework includes targets and indicators for community participation, participation by women, employment recruitment, and subcenters' inclusive design features.</p> <p>2. Required human resources: Extensive human resources to address gender, social development, and social safeguards will be provided by the consultant services and program management office (PMO) staff. Community engagement and a component for development of small- and medium-sized enterprises will require 6 person-months of international and 82 person-months of national consultants. PMO support will require 27 person-months of international and 39 person-months of national consultants. In addition, the PMO will have a staff member engaged for 20 person-months to supervise and implement the social actions under the project.</p> <p>3. Information in FAM: Social and gender indicators and targets are included in the project's design and monitoring framework and in the updated FAM.</p> <p>4. Monitoring tools: Project performance management system on social and gender action plans is incorporated in the updated FAM.</p>	

^a *Ger* is the Mongolian dwelling fit for nomadic way of life and is easily assembled and disassembled.

^b State Great Hural (Parliament) of Mongolia. February 2013. *Adjustments to the Ulaanbaatar City Urban Development Master Plan 2020 and Development Directions 2030*. Ulaanbaatar.

^c ADB. 2014. *Country Partnership Strategy: Mongolia, 2014–2016*. Manila; ADB. 2014. *Country Operations Business Plan: Mongolia, 2014–2016*. Manila; ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–2020*. Manila. The investment program also addresses ADB's strategic objectives in the urban sector. Under Strategy 2020, cities are a key focus—in terms of promoting livable cities that are competitive, socially inclusive, environmentally attractive, resilient, and responsive; ADB. 2004. *Poverty Reduction Strategy of the Asian Development Bank*. Manila; ADB. 2013. *Urban Operational Plan, 2012–2020*. Manila.

UPDATED ENVIRONMENTAL ASSESSMENT AND REVIEW FRAMEWORK

The updated environmental assessment and review framework is available at:
<https://www.adb.org/sites/default/files/project-document/219316/45007-005-earf-01.pdf>

INITIAL ENVIRONMENTAL EXAMINATION FOR PROJECT 2

The initial and updated initial environmental examinations for Project 2 are available at:
<https://www.adb.org/sites/default/files/project-document/219321/45007-005-iee-01.pdf>
<https://www.adb.org/sites/default/files/project-documents/45007/45007-005-iee-02.pdf>

UPDATED LAND ACQUISITION AND RESETTLEMENT FRAMEWORK

The updated land acquisition and resettlement framework is available at:
<https://www.adb.org/sites/default/files/project-document/217211/45007-005-rf-01.pdf>

LAND ACQUISITION AND RESETTLEMENT PLAN FOR PROJECT 2

The land acquisition and resettlement plan for Project 2 is available at:

<https://www.adb.org/sites/default/files/project-document/217021/45007-005-rp-01.pdf>

Gender Action Plan for Project 2

Activities	Targets/Indicators	Responsible Entity	Timeline	Indicative Budget
Output 1: Roads and urban services expanded				
1. Integrate gender-responsive design measures into road infrastructure to ensure access and safety and security mobility	1.1 Number and type of gender-responsive design features 1.2 Lighting installed along the improved roads of 2.48 kilometers in Denjin and 3.25 kilometers in Dambadarjaa	MUB, PMO, district, <i>kheseg</i> , <i>khoro</i> , ^a and school officials	2017–2020	Included in project costs
2. Conduct road safety awareness education program for residents and schoolchildren in target areas	2. At least 50% of participants are women			
3. Ensure safety of girls and women in public places	3.1 Around 25 cameras installed and operating in streets of Denjiin and Dambadarjaa subcenters	MUB, PMO, and school officials	2017–2020	Included in project costs
	3.2 At least four peer educators (female and male) trained for each school in the subcenters			
	3.3 At least two trainings conducted on Violence Against Women and Girls for adolescent girls of 3 schools in each subcenter (Baseline: 0)			
4. Sensitize construction workers on gender equity in labor relations	4 At least two workplace trainings conducted on gender equity in labor relations including labor exploitation (sex-disaggregated) (Baseline: 0)	MUB, PMO, and construction contractors	2017–2020	Included in project costs
Output 2: Economic and public services in targeted areas improved				
5. Establish one multipurpose community development services center in the subcenter	5.1 At least 50% of training participants are women (Baseline: 0)	MUB, associated agency, and PMO	2017–2020	Included in project costs
	5.2 Sex-disaggregated data collected on community development services center clients			
6. Construct four kindergarten classrooms in the subcenters	6.1 Four new kindergarten classrooms with capacity of 100 children each is operational by 2019 (sex-disaggregated)	MUB and PMO	2017–2020	Included in project costs
	6.2 Rapid qualitative assessment conducted among mothers whose children were enrolled in new kindergartens			
7. Pilot a transitional housing for domestic violence survivor women in Denjiin subcenter	7.1 One transitional house with capacity of 20 women and children is constructed	MUB, PMO, district, <i>kheseg</i> and <i>khoro</i> officials including social workers	2018–2020	Included in project costs
	7.2 Women in transitional house benefitted from skills-building or business development programs in business incubators			
8. Train multidisciplinary teams in target <i>khoroos</i> on prevention and response to domestic violence, and public space safety for girls and women	8 At least 80% of multidisciplinary teams in target <i>khoroos</i> are trained on prevention and response to domestic violence against women and children, and public space safety for girls and women (Baseline to be determined in 2017)	MUB, PMO, district, <i>kheseg</i> and <i>khoro</i> officials including multidisciplinary teams	2017–2020	Included in project costs

Activities	Targets/Indicators	Responsible Entity	Timeline	Indicative Budget
9. Raise awareness among adolescent girls and boys on public and private space safety	9 At least one behavior change communications campaign held in all schools of each subcenter (Baseline: 0)	MUB, PMO, and school officials including social workers	2017–2020	Included in project costs
Output 3: Institutional capacity for program management and urban development strengthened				
10. Ensure that subcenter plan and redevelopment process are prepared and endorsed by all stakeholders through community consultations	10.1 Dambadarjaa and Denjiin plans and redevelopment processes are prepared and endorsed by all the stakeholders, through community consultation, including at least 50% of women participants (2015 baseline: 0) 10.2 CDCs and SDCs in Dambadarjaa and Denjiin fully functioning, with at least 40% of women participating actively (2015 baseline: 0)	MUB and PMO	2017–2019	Included in project costs
11. Institutional capacity for program management and urban development are strengthened	11 PMO is fully functioning with fully trained staff, at least 50% of whom are women (2015 baseline: 14 persons)			
12. Train relevant officials of different administrative levels on prevention and response to public and private space safety	12.1 A training module on prevention and response to public and private space safety including gender-based violence is developed (Baseline: 0) 12.2 At least one training for relevant officials of different administrative levels is conducted (sex-disaggregated) (Baseline: 0)	MUB, PMO, district, <i>kheseg</i> and <i>khoroos</i> officials, and non-government organization(s)	2017–2020	Included in project costs
13. Sex-disaggregated data will be collected by the project performance management system to ensure monitoring, evaluation, and reporting of the gender action plan and social development action plan	13 Sex-disaggregated project performance and management system operational (2015 baseline: 0)	MUB and PMO	2017–2020	Included in project costs
14. Ensure semiannual monitoring and reporting of the gender action plan implementation	14 Gender action plan progress monitoring matrix is updated semiannually	MUB and PMO	2017–2020	Included in project costs
15. Provide recommendations and draft regulatory framework including standards for establishment of the transitional house.	15 Regulatory framework including standards for establishment of the transitional house is drafted and submitted to line Ministries (baseline 0)	Ministry of Justice and Home Affairs, and Ministry of Labor and Social Protection MUB, and PMO.	2017–2020	Included in project costs

CDCs = community development councils, MUB = Municipality of Ulaanbaatar, PMO = program management office, SDCs = small- and medium-sized enterprise development council.

^a A *khoroos* is an administrative subdivision in Ulaanbaatar.

Source: Asian Development Bank.

UPDATED RISK ASSESSMENT AND RISK MANAGEMENT PLAN

Risk Description	Rating	Mitigation Measures	Responsibility
Public Financial Management			
Urban infrastructure investments are constrained by fiscal and political factors.	M	<p>ADB will meet regularly with the MCUD, MOF, MUB, and other agencies involved to explain the concept and implications of the MFF.</p> <p>The program has a provision to strengthen local and city master planning to ensure consistency and alignment of the planning process and orientation. ADB will maintain a continuous dialogue and strengthen awareness with the MCUD, MOF, and MUB. The program is indicated in the priority action plans of the MUB and the Government.</p>	<p>ADB, MCUD, MOF, and MUB</p> <p>ADB, MCUD, MOF, and MUB</p>
Allotted program resources are inadequate to support the policy and institutional reforms.	M	A loan condition requires allocation of necessary counterpart funds.	MOF and MUB
The MUB fails to provide adequate subsidies to augment shortfalls of revenues.	M	Appropriate covenants will be included in the ADB loan document for the MUB to mitigate these risks.	ADB and MUB
The tariff set for water supply, sewerage, and heating services is not affordable for low income communities.	M	Conduct consultation with all stakeholders to make tariff for utility cost reasonable.	Agency for Fair Competition and Consumer Rights, Energy Regulatory Commission MUB, and USUG
Procurement			
The MUB lacks the capacity to implement large and sophisticated projects, including procurement.	M	The program allocates funding to cover consulting services support and additional staff with experience and suitable skills. The program will focus on key sector improvements in project imprest account management and reporting, project accounting, contract management, and project performance monitoring and reporting.	ADB and MUB
The PMO has limited procurement capacity.	M	ADB will conduct procurement review during loan review missions to validate reported procurement capacities and address gaps that may impede program effectiveness.	ADB and MUB
The MUB fails to engage and retain consultants who are well-qualified and experienced.	L	The program will include one large package for consulting services, and only reputable companies with sufficient resources will be shortlisted. Executing and implementing agencies will liaise regularly with ADB and the project consultant team to ensure that ADB guidelines are followed. Interagency coordination will be enhanced at all levels to closely monitor the performance of the MFF portfolio.	ADB and MUB
Others			
Delays in project implementation	M	The government will ensure that the PMO is staffed with experienced professionals. Consulting services for Tranche 2 will be tendered and hired by the current PMO and PMO support consultants. The MUB	MUB

Risk Description	Rating	Mitigation Measures	Responsibility
		will ensure that the approval process of detailed design and bidding documents will be simplified to ensure prompt project implementation.	
Insufficient resources are allocated to the operation and maintenance of socioeconomic facilities.	M	The Government and the MUB will ensure that the facilities financed by Project 2 (community development centers, transitional house, kindergartens, sports complexes, and public parks) have enough resources and human capacity to be properly operated and maintained by relevant departments and agencies.	MUB and line ministries
Policy reforms are delayed or prevented by political interference.	M	The program will support the development and implementation of a reform road map. It will strengthen awareness of the program stakeholders through a combination of high-level advocacy and publicity campaigns.	MUB and line ministries
Community and private sector involvement in subcenter development is lacking.	M	ADB will provide continuous support during implementation for community engagement and private sector involvement. The MUB, supported by the program, will facilitate, supervise, and coordinate the redevelopment process of subcenters and guide a fair land redevelopment process. The program will provide support to community engagement throughout implementation.	ADB and MUB
There are delays that might result from the negotiated settlements that are necessary in the absence of a legal framework for land acquisition and resettlement.	M	Requirements for resettlement have been minimized during the project design and extensive community consultations have been undertaken to reach a consensus on the project scope and resettlement plans. The community engagement consulting services will also support the PMO and the resettlement specialists to facilitate and guide the consultations with affected people to ensure smooth land acquisition and resettlement negotiations.	MUB
		Baselines for land compensation for affected people will be agreed with the MUB.	MUB
		MUB will make compensation funds for affected persons available early and will strictly comply with the resettlement plan.	MUB
Women are not effectively mainstreamed into the program.	M	Program counterpart funds on gender mainstreaming activities are included in the annual budget of the implementing agencies. A gender action plan was prepared, which outlined the main strategies to address the key gender concerns on access and affordability of households headed by poor women, protection of the land tenure and property rights of women, and equal participation by women in the decision-making activities of the <i>kheseqs</i> and <i>khoroos</i> under the investment program. ^a	MUB
Overall	M		

ADB = Asian Development Bank, L = low, M = moderate, MCUD = Ministry of Construction and Urban Development, MFF = multitranches financing facility, MUB = Municipality of Ulaanbaatar, MOF = Ministry of Finance, PMO = program management office, USUG = Ulaanbaatar Water Supply and Sewerage Authority.

^a A *khoroos* is an administrative subdivision of Ulaanbaatar, the capital of Mongolia. The term is often translated as subdistrict or microdistrict.

Source: Asian Development Bank

CLIENT FEASIBILITY STUDIES AND ENGINEERING DESIGNS

The client feasibility studies and engineering designs are available upon request from the project officer.