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LOAN NUMBER 3388-MON(SF)

LOAN AGREEMENT  
(Special Operations)

(Southeast Gobi Urban and Border Town Development Project  
- Additional Financing)

between

MONGOLIA

and

ASIAN DEVELOPMENT BANK

DATED 28 April 2016

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MON 42184

**LOAN AGREEMENT  
(Special Operations)**

LOAN AGREEMENT dated 28 April 2016 between MONGOLIA  
("Borrower") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) by a grant agreement dated 7 June 2010 between Mongolia ("Borrower") and ADB ("Grant Agreement"), ADB has agreed to make a grant to the Borrower from ADB's Special Funds resources in the amount of fifteen million Dollars (\$15,000,000) for the purposes of the project described in Schedule 1 to the Grant Agreement ("Initial Project");

(B) the Borrower has applied to ADB for a loan for the purposes of financing additional activities under the Initial Project as described in Schedule 1 to this Loan Agreement ("Project");

(C) the Project will be carried out by the aimag governments of Arkhangai, Dornogobi, Umnugobi and Uvurkhangaigai ("Aimag Governments"), and for this purpose the Borrower will make available to the Aimag Governments the proceeds of the loan provided for herein upon terms and conditions satisfactory to ADB; and

(D) ADB has agreed to make a loan to the Borrower from ADB's Special Funds resources upon the terms and conditions set forth herein and in the Project Agreements between ADB and the Aimag Governments;

NOW THEREFORE the parties agree as follows:

**ARTICLE I**

**Loan Regulations; Definitions**

Section 1.01. All the provisions of the Special Operations Loan Regulations of ADB, dated 1 January 2006 ("Loan Regulations"), are hereby made applicable to this Loan Agreement with the same force and effect as if they were fully set forth herein, subject, however, to the following modifications:

(a) Section 2.01(25) is deleted and the following is substituted therefor:

"Project Agreement" means each of the Project Agreements between ADB and the aimag governments of Arkhangai, Dornogobi, Umnugobi and Uvurkhangaigai, respectively.

(b) The term "Project Executing Agency" appearing in Section 6.01(a), 8.01(d), 8.01(f), 8.01(k), 9.01(c) and 9.02(c) of the Loan Regulations

shall be substituted by the term "the aimag governments of Arkhangai, Dornogobi, Umnugovi and Uvurkhangai".

Section 1.02. Wherever used in this Loan Agreement, the several terms defined in the Loan Regulations have the respective meanings therein set forth unless modified herein or the context otherwise requires. Additional terms used in this Loan Agreement have the following meanings:

(a) "Aimag" means the Borrower's administrative unit below its central government level;

(b) "Consulting Guidelines" means the Guidelines on the Use of Consultants by Asian Development Bank and its Borrowers (2013, as amended from time to time);

(c) "Consulting Services" means the services to be financed out of the proceeds of the Loan to help carrying out the activities under Schedule 1 to this Loan Agreement;

(d) "Environmental Management Plan" or "EMP" means the environmental management plan for the Project, including any update thereto, incorporated in the IEE;

(e) "Environmental Safeguards" means the principles and requirements set forth in Chapter V, Appendix 1, and Appendix 4 (as applicable) of the SPS;

(f) "Goods" means equipment and materials to be financed out of the proceeds of the Loan, including related services such as transportation, insurance, installation, commissioning, training, and initial maintenance, but excluding Consulting Services;

(g) "HIV/AIDS" means human immunodeficiency virus/acquired immune deficiency syndrome;

(h) "Initial Environmental Examination" or "IEE" means the initial environmental examination for the Project, including any update thereto, prepared and submitted by the Borrower and cleared by ADB;

(i) "Loan Disbursement Handbook" means ADB's Loan Disbursement Handbook (2015, as amended from time to time);

(j) "MOF" means the Borrower's Ministry of Finance, or any successor thereto;

(k) "O&M" means operation and maintenance of the Project facilities;

(l) "PAM" means the project administration manual for the Project dated 16 March 2016 and agreed between the Borrower and ADB, as updated from time to time in accordance with the respective administrative procedures of the Borrower and ADB;

(m) "PMU" means a Project management unit for the Project;

(n) "Procurement Guidelines" means ADB's Procurement Guidelines (2015, as amended from time to time);

(o) "Procurement Plan" means the procurement plan for the Project dated 16 March 2016 and agreed between the Borrower and ADB, as updated from time to time in accordance with the Procurement Guidelines, the Consulting Guidelines, and other arrangements agreed with ADB;

(p) "Project Executing Agency" for the purposes of, and within the meaning of, the Loan Regulations means the Borrower's Ministry of Construction and Urban Development or any successor thereto acceptable to ADB, which is responsible for the carrying out of the Project;

(q) "Project facilities" means facilities to be constructed, procured, rehabilitated and/or maintained under the Project;

(r) "PUSO" means, for the purpose of this Loan Agreement, a public utility services organizations established in each of the Aimag Governments;

(s) "Safeguard Policy Statement" or "SPS" means ADB's Safeguard Policy Statement (2009);

(t) "Safeguards Monitoring Report" means each report prepared and submitted by the Borrower to ADB that describes progress with implementation of and compliance with the EMP, including any corrective and preventative actions;

(u) "Soum" means the Borrower's administrative unit immediately below aimag;

(v) "Subsidiary Loan Agreement" means a loan agreement between the Borrower and the respective Aimag Government, as described in Section 3.01 of this Loan Agreement; and

(w) "Works" means construction or civil works to be financed out of the proceeds of the Loan, including services such as drilling or mapping, and project related services that are provided as part of a single responsibility or turnkey contract, but excluding Consulting Services.

## ARTICLE II

### The Loan

Section 2.01. ADB agrees to lend to the Borrower from ADB's Special Funds resources an amount in various currencies equivalent to thirteen million nine hundred ninety-four thousand Special Drawing Rights (SDR13,994,000).

Section 2.02. (a) The Borrower shall pay to ADB an interest charge at the rate of 2% per annum during the grace period and thereafter, on the amount of the Loan withdrawn from the Loan Account and outstanding from time to time.

(b) The term "grace period" as used in subsection (a) hereinabove means the period prior to the first Principal Payment Date in accordance with the amortization schedule set forth in Schedule 2 to this Loan Agreement.

Section 2.03. The interest charge and any other charge on the Loan shall be payable semiannually on 15 February and 15 August in each year.

Section 2.04. The Borrower shall repay the principal amount of the Loan withdrawn from the Loan Account in accordance with the amortization schedule set forth in Schedule 2 to this Loan Agreement.

Section 2.05. The currency of repayment of the principal amount of the Loan and the currency of payment of the interest charge for the purposes of Sections 4.03(a) and 4.04 of the Loan Regulations shall be Dollar.

### **ARTICLE III**

#### **Use of Proceeds of the Loan**

Section 3.01. (a) The Borrower shall relend the proceeds of the Loan to the Aimag Governments under Subsidiary Loan Agreements upon terms and conditions satisfactory to ADB.

(b) The Borrower shall cause the proceeds of the Loan to be applied to the financing of expenditures on the Project in accordance with the provisions of this Loan Agreement and the Project Agreement.

Section 3.02. The proceeds of the Loan shall be allocated and withdrawn in accordance with the provisions of Schedule 2 to this Loan Agreement, as such Schedule may be amended from time to time by agreement in writing between the Borrower and ADB.

Section 3.03. Except as ADB may otherwise agree, the Borrower shall procure, or cause to be procured, the items of expenditure to be financed out of the proceeds of the Loan in accordance with the provisions of Schedule 4 to this Loan Agreement.

Section 3.04. Except as ADB may otherwise agree, the Borrower shall cause all items of expenditure financed out of the proceeds of the Loan to be used exclusively in the carrying out of the Project.

Section 3.05. Withdrawals from the Loan Account in respect of Goods, Works and Consulting Services shall be made only on account of expenditures relating to:

- (a) Goods which are produced in and supplied from and Works and Consulting Services which are supplied from such member countries of ADB as shall have been specified by ADB from time to time as eligible sources for procurement; and
- (b) Goods, Works and Consulting Services which meet such other eligibility requirements as shall have been specified by ADB from time to time.

Section 3.06. The Loan Closing Date for the purposes of Section 8.02 of the Loan Regulations shall be 30 June 2020 or such other date as may from time to time be agreed between the Borrower and ADB.

## ARTICLE IV

### Particular Covenants

Section 4.01. In the carrying out the Project and operation of the Project facilities, the Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 5 to this Loan Agreement and the Project Agreements.

Section 4.02. (a) The Borrower shall (i) maintain separate accounts and records for the Project; (ii) prepare annual financial statements for the Project in accordance with financial reporting standards acceptable to ADB; (iii) have such financial statements audited annually by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with auditing standards acceptable to ADB; (iv) as part of each such audit, have the auditors prepare a report, which includes the auditors' opinion(s) on the financial statements and the use of the Loan proceeds, and a management letter (which sets out the deficiencies in the internal control of the Project that were identified in the course of the audit, if any); and (v) furnish to ADB, no later than 6 months after the end of each related fiscal year, copies of such audited financial statements, audit report and management letter, all in the English language, and such other information concerning these documents and the audit thereof as ADB shall from time to time reasonably request.

(b) ADB shall disclose the annual audited financial statements for the Project and the opinion of the auditors on the financial statements within 14 days of the date of ADB's confirmation of their acceptability by posting them on ADB's website.

(c) The Borrower shall enable ADB, upon ADB's request, to discuss the financial statements for the Project and the Borrower's financial affairs where they relate to the Project with the auditors appointed pursuant to subsection (a)(iii) hereinabove, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB. This is provided that such discussions shall be conducted only in the presence of an authorized officer of the Borrower, unless the Borrower shall otherwise agree.

Section 4.03. The Borrower shall enable ADB's representatives to inspect the Project, the Goods and Works, and any relevant records and documents.

Section 4.04. The Borrower shall take all actions which shall be necessary on its part to enable the Aimag Governments to perform their obligations under the respective Project Agreements, and shall not take or permit any action which would interfere with the performance of such obligations.

Section 4.05. (a) The Borrower shall exercise its rights under the Subsidiary Loan Agreements in such a manner as to protect the interests of the Borrower and ADB and to accomplish the purposes of the Loan.

(b) No rights or obligations under the Subsidiary Loan Agreements shall be assigned, amended, or waived without the prior concurrence of ADB.

## **ARTICLE V**

### **Suspension; Acceleration of Maturity**

Section 5.01. The following are specified as additional events for suspension of the right of the Borrower to make withdrawals from the Loan Account for the purposes of Section 8.01(m) of the Loan Regulations: any of the Subsidiary Loan Agreements shall have become liable for suspension or cancellation.

Section 5.02. The following is specified as an additional event for acceleration of maturity for the purposes of Section 8.07(d) of the Loan Regulations: an event specified in Section 5.01 of this Loan Agreement shall have occurred.

## **ARTICLE VI**

### **Effectiveness**

Section 6.01. A date 90 days after the date of this Loan Agreement is specified for the effectiveness of the Loan Agreement for the purposes of Section 9.04 of the Loan Regulations.

**ARTICLE VII**

**Miscellaneous**

Section 7.01. The Minister of MOF is designated as representative of the Borrower for the purposes of Section 11.02 of the Loan Regulations.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the Loan Regulations:

For the Borrower

Ministry of Finance  
S.Danzangiin gudamj 5/1  
Zasgiin gazriin II bair  
Ulaanbaatar-15160  
Mongolia

Facsimile Number:

(976-51) 267468.

For ADB

Asian Development Bank  
6 ADB Avenue  
Mandaluyong City  
1550 Metro Manila  
Philippines

Facsimile Numbers:

(632) 636-2444  
(632) 636-2407.



IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Loan Agreement to be signed in their respective names as of the day and year first above written and to be delivered at the principal office of ADB.

MONGOLIA

By   
BOLOR BAYARBAATAR  
Minister  
Ministry of Finance

ASIAN DEVELOPMENT BANK

By   
ROBERT SCHOELLHAMMER  
Country Director  
Mongolia Resident Mission

**SCHEDULE 1****Description of the Project**

1. The objective of the Project is to improve urban governance and expanded access to sustainable infrastructure and services in urban places in Southeast Gobi.

2. The Project shall comprise the following outputs.

**Output 1. Wastewater collection and treatment infrastructure constructed and operationalized.** Establishing modern wastewater treatment facilities which will functionally replace the existing inadequate waste stabilization pond systems, through the construction of new, effective, and energy-efficient treatment processes adopting integrated fixed-film activated sludge technology.

**Output 2. Capacity on project management, strategic planning, and accounting systems increased.**

(a) Providing expert support for Project management, institutional enhancement, and capacity development in utility management, operation, and service provision; emergency preparedness and response; and construction supervision; and

(b) Strengthening PMU and PUSO capacities.

3. The Project is expected to be completed by 31 December 2019.

## SCHEDULE 2

## Amortization Schedule

(Southeast Gobi Urban and Border Town Development Project)

<u>Date Payment Due</u>	<u>Payment of Principal</u> (expressed in Special Drawing Rights)*
15 Aug 2021	349,850.00
15 Feb 2022	349,850.00
15 Aug 2022	349,850.00
15 Feb 2023	349,850.00
15 Aug 2023	349,850.00
15 Feb 2024	349,850.00
15 Aug 2024	349,850.00
15 Feb 2025	349,850.00
15 Aug 2025	349,850.00
15 Feb 2026	349,850.00
15 Aug 2026	349,850.00
15 Feb 2027	349,850.00
15 Aug 2027	349,850.00
15 Feb 2028	349,850.00
15 Aug 2028	349,850.00
15 Feb 2029	349,850.00
15 Aug 2029	349,850.00
15 Feb 2030	349,850.00
15 Aug 2030	349,850.00
15 Feb 2031	349,850.00
15 Aug 2031	349,850.00
15 Feb 2032	349,850.00
15 Aug 2032	349,850.00
15 Feb 2033	349,850.00
15 Aug 2033	349,850.00
15 Feb 2034	349,850.00
15 Aug 2034	349,850.00
15 Feb 2035	349,850.00
15 Aug 2035	349,850.00
15 Feb 2036	349,850.00
15 Aug 2036	349,850.00
15 Feb 2037	349,850.00
15 Aug 2037	349,850.00
15 Feb 2038	349,850.00

15 Aug 2038	349,850.00
15 Feb 2039	349,850.00
15 Aug 2039	349,850.00
15 Feb 2040	349,850.00
15 Aug 2040	349,850.00
15 Feb 2041	349,850.00
<b>TOTAL</b>	<b>13,994,000.00</b>

\* The arrangements for payment are subject to the provisions of Sections 3.04 and 4.03 of the Loan Regulations.

**SCHEDULE 3****Allocation and Withdrawal of Loan Proceeds**General

1. The table attached to this Schedule sets forth the Categories of items of expenditure to be financed out of the proceeds of the Loan and the allocation of the Loan proceeds to each such Category ("Table"). (Reference to "Category" in this Schedule is to a Category or Subcategory of the Table.)

Basis for Withdrawal from the Loan Account

2. Except as ADB may otherwise agree, the proceeds of the Loan shall be disbursed on the basis of the withdrawal percentage for each item of expenditure set forth in the Table.

Interest Charge

3. The amount allocated to Category 4 is for financing the interest charge on the Loan during the implementation period of the Project.

Reallocation

4. Notwithstanding the allocation of Loan proceeds and the withdrawal percentages set forth in the Table,

(a) if the amount of the Loan allocated to any Category appears to be insufficient to finance all agreed expenditures in that Category, ADB may, by notice to the Borrower, (i) reallocate to such Category, to the extent required to meet the estimated shortfall, amounts of the Loan which have been allocated to another Category but, in the opinion of ADB, are not needed to meet other expenditures, and (ii) if such reallocation cannot fully meet the estimated shortfall, reduce the withdrawal percentage applicable to such expenditures in order that further withdrawals under such Category may continue until all expenditures thereunder shall have been made; and

(b) if the amount of the Loan allocated to any Category appears to exceed all agreed expenditures in that Category, ADB may, by notice to the Borrower, reallocate such excess amount to any other Category.

Disbursement Procedures

5. Except as ADB may otherwise agree, the Loan proceeds shall be disbursed in accordance with the Loan Disbursement Handbook.

TABLE

<b>ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS (Southeast Gobi Urban and Border Town Development Project)</b>			
<b>Number</b>	<b>Item</b>	<b>Total Amount Allocated for ADB Financing (SDR) Category Subcategory</b>	<b>Basis for Withdrawal from the Loan Account</b>
1	Works	8,368,000	100% of total expenditure claimed*
2	Materials and Equipment	1,340,000	100% of total expenditure claimed*
3	Project Management and Institutional Strengthening	1,498,000	100% of total expenditure claimed*
4	Interest Charge	454,000	100% of amounts due
5	Unallocated	2,334,000	
	Total	13,994,000	

\*Excluding taxes and duties within the territory of the Borrower.

**SCHEDULE 4****Procurement of Goods, Works and Consulting Services**General

1. The procurement of Goods, Works and Consulting Services shall be subject to and governed by the Procurement Guidelines, and the Consulting Guidelines, respectively.
2. All terms used in this Schedule and not otherwise defined in this Loan Agreement have the meanings provided in the Procurement Guidelines and/or the Consulting Guidelines, as applicable.

Goods and Works

3. Except as ADB may otherwise agree, Goods and Works shall only be procured on the basis of the methods of procurement set forth below:
  - (a) National Competitive Bidding; and
  - (b) Shopping.
4. The methods of procurement are subject to, among other things, the detailed arrangements and threshold values set forth in the Procurement Plan. The Borrower may only modify the methods of procurement or threshold values with the prior agreement of ADB, and modifications must be set out in updates to the Procurement Plan.

National Competitive Bidding

5. The Borrower and ADB shall ensure that, prior to the commencement of any procurement activity under national competitive bidding, the Borrower's national competitive bidding procedures are consistent with the Procurement Guidelines. Any modifications or clarifications to such procedures agreed between the Borrower and ADB shall be set out in the Procurement Plan. Any subsequent change to the agreed modifications and clarifications shall become effective only after approval of such change by the Borrower and ADB.

Conditions for Award of Contract

6. The Borrower shall not award a Works contract until the Borrower's Ministry of Construction and Urban Development has caused the relevant provisions to be incorporated from the EMP into the Works contract.

Consulting Services

7. Except as ADB may otherwise agree, and except as set forth in the paragraph below, the Borrower shall apply quality- and cost-based selection for selecting and engaging Consulting Services.

8. The Borrower shall apply the following method for selecting and engaging the specified Consulting Services, in accordance with, among other things, the procedures set forth in the Procurement Plan: Quality-Based Selection for the organizational and human resource development and capacity building support for the Aimag Governments and PUSOs.

9. The Borrower shall recruit the individual consultants for Project management and PMU support in accordance with procedures acceptable to ADB for recruiting individual consultants.

Industrial or Intellectual Property Rights

10. (a) The Borrower shall ensure that all Goods and Works procured (including without limitation all computer hardware, software and systems, whether separately procured or incorporated within other goods and services procured) do not violate or infringe any industrial property or intellectual property right or claim of any third party.

(b) The Borrower shall ensure that all contracts for the procurement of Goods and Works contain appropriate representations, warranties and, if appropriate, indemnities from the contractor or supplier with respect to the matters referred to in subparagraph (a) of this paragraph.

11. The Borrower shall ensure that all ADB-financed contracts with consultants contain appropriate representations, warranties and, if appropriate, indemnities from the consultants to ensure that the Consulting Services provided do not violate or infringe any industrial property or intellectual property right or claim of any third party.

ADB's Review of Procurement Decisions

12. The first contract to be procured using the National Competitive Bidding and contracts for Consulting Services shall be subject to prior review by ADB, unless otherwise agreed between the Borrower and ADB and set forth in the Procurement Plan.



**SCHEDULE 5****Execution of Project; Environmental, Social, Financial and Other Matters**Implementation Arrangements

1. The Borrower shall ensure and cause and the Aimag Governments to ensure that the Project is implemented in accordance with the detailed arrangements set forth in the PAM. Any subsequent change to the PAM shall become effective only after approval of such change by the Borrower and ADB. In the event of any discrepancy between the PAM and this Loan Agreement, the provisions of this Loan Agreement shall prevail.

Environment

2. The Borrower shall ensure that the preparation, design, construction, implementation, and operation of Project facilities comply with (a) the Borrower's all applicable laws and regulations relating to environment, health and safety; (b) the Safeguard Policy Statement; and (c) all measures and requirements set forth in the IEE, the EMP and any corrective or preventative actions set forth in the Safeguard Monitoring Reports.

3. The Borrower, through the Aimag Governments, shall cause the relevant aimag environment authorities to ensure through regular compliance monitoring that (a) industries discharging industrial wastewater to the public sewer network connected to the Project wastewater treatment plants meet the relevant discharge standard, and (b) the monitoring results are reported to ADB in the annual Safeguard Monitoring Reports. The Borrower shall ensure and cause the relevant PUSOs that an emergency preparedness and response plan is developed for the wastewater treatment plants.

4. The Borrower, through the Aimag Governments, shall cause the relevant PUSOs to ensure that sludge drying beds at the wastewater treatment plant are properly designed for air drying with leachate collection, and that sampling tests are carried out for the sludge from the wastewater treatment plants until approval of the project completion report to determine its suitability, through compliance with the Borrower's applicable standards for either disposal to a sanitary landfill or for beneficial use (urban landscaping).

5. The Borrower shall ensure, and cause the Aimag Governments to ensure, that the following are identified by the PUSOs, and approved by the relevant aimag environment protection authorities:

- (a) prior to dismantling of existing structures and/or excavating sludge from the existing and/or proposed wastewater treatment plants, waste and sludge disposal sites; and
- (b) prior to earthworks, spoil disposal sites and/or borrow pits.

Land Acquisition and Involuntary Resettlement, and Indigenous Peoples

6. The Borrower shall ensure, or cause the Aimag Governments to ensure, that the Project does not have any involuntary resettlement or indigenous peoples impacts, within the meaning of the Safeguard Policy Statement. In the event that the Project does have any such impact, the Borrower shall take all steps required to ensure that the Project complies with the applicable laws and regulations of the Borrower and with the Safeguard Policy Statement.

Safeguards-Related Provisions in Bidding Documents and Works Contracts

7. The Borrower shall ensure that all bidding documents and contracts for Works contain provisions that require contractors to:

- (a) comply with the measures relevant to the contractor set forth in the IEE, the EMP, and any corrective or preventative actions (i) set forth in a Safeguards Monitoring Report, or (ii) as subsequently agreed between ADB and the Borrower;
- (b) make available a budget for all such environmental measures; and
- (c) provide the Borrower and the Aimag Governments with a written notice of any unanticipated environmental risks or impacts that arise during construction, implementation or operation of the project that were not considered in the IEE or the EMP.

Human and Financial Resources to Implement Safeguards Requirements

8. The Borrower shall make available, and cause the Aimag Government to make available, necessary budgetary and human resources to fully implement the EMP.

9. The Borrower shall ensure that (a) the Project implementation consultants are engaged in a timely manner, including safeguards specialists; and (b) a licensed environmental monitoring individual consultant is contracted to conduct independent periodic environmental impact monitoring in accordance with the approved monitoring plan.

Safeguards Monitoring and Reporting

10. The Borrower shall do the following:

- (a) submit Safeguards Monitoring Reports to ADB and disclose relevant information from such reports to affected people under Environmental Safeguards promptly upon submission;
- (b) if any unanticipated environmental risks and impacts arise during construction, implementation or operation of the Project that were not considered in the IEE and the EMP, promptly inform ADB of the occurrence of such risks or impacts, with detailed description of the event and proposed corrective action plan;

- (c) review any changes to the Project design that may potentially cause negative environmental impacts;
- (d) in consultation with ADB, revise environmental monitoring and mitigation measures as necessary to assure full environmental compliance. The Borrower shall provide to ADB within 60 days, justification for any proposed changes to the mitigation measures required during design, construction, and operations, if any changes to the IEE or the EMP must be implemented for safety or emergency reasons; and
- (e) report any actual or potential breach of compliance with the measures and requirements set forth in the EMP promptly after becoming aware of the breach.

#### Prohibited List of Investments

11. The Borrower shall ensure that no loan proceeds are used to finance any activity included in the list of prohibited investment activities provided in Appendix 5 of the Safeguard Policy Statement.

#### Grievance Redress Mechanism

12. The Borrower shall ensure that separate safeguards grievance redress mechanism acceptable to ADB is established in accordance with the provisions of the EMP at the PMU, within the timeframes specified in the relevant EMP, to consider safeguards complaints.

#### Labor Standards, Health and Safety

13. The Borrower shall ensure that the core labor standards and the Borrower's applicable laws and regulations are complied with during Project implementation. The Borrower shall include specific provisions in the bidding documents and contracts financed by ADB under the Project requiring that the contractors, among other things: (a) comply with the Borrower's applicable labor law and regulations and incorporate applicable workplace occupational safety norms; (b) do not use child labor; (c) do not discriminate workers in respect of employment and occupation; (d) do not use forced labor; (e) allow freedom of association and effectively recognize the right to collective bargaining; and (f) disseminate, or engage appropriate service providers to disseminate, information on the risks of sexually transmitted diseases, including HIV/AIDS, to the employees of contractors engaged under the Project and to members of the local communities surrounding the Project area, particularly women.

14. The Borrower shall strictly monitor compliance with the requirements set forth in paragraph 12 above and provide ADB with regular reports.

#### Gender and Social Development Action Plans

15. The Borrower shall ensure that (a) the Project's Gender Action Plan and Social Development Action Plan are implemented in accordance with their terms; (b) adequate resources are allocated for implementation of such Plans; and (c) progress on

implementation of such Plans, including progress toward achieving key gender and social outcome and output targets, are regularly monitored and reported to ADB.

#### Wastewater Tariff

16. The Borrower shall, and shall cause the Aimag Governments to, (a) make continuous efforts to increase wastewater tariffs progressively to achieve full cost recovery and in accordance with national tariff policies and regulations; and (b) undertake a periodic review of tariffs and fees including an assessment of their impact on the poor.

17. During the process of adjusting wastewater tariffs, the Borrower shall cause the Aimag Governments to take into consideration (a) the minimum tariff level to cover basic operating costs, debt service and capital replacement; (b) users' affordability and willingness to-pay data from available surveys; and (c) recent tariff escalations. The Borrower shall also cause the Aimag Governments to include public consultation in their tariff setting processes.

#### Operation and Maintenance of Project Facilities

18. The Borrower shall cause the Aimag Governments to ensure that (a) each agency responsible for O&M prepares (i) a sustainable O&M plan; and (ii) a budget plan on an annual basis for O&M; and (b) such agency provides sufficient financial and staffing resources to the relevant O&M agencies.

19. The Borrower shall cause the Aimag Governments to ensure that all assigned O&M agencies shall be fully involved in the Project implementation, including professional staff from O&M agencies participating in Project design, the bidding, and implementation of contracts, and the acceptance of the completed Works.

#### Counterpart Support

20. The Borrower shall ensure that the counterpart funding required for successful Project implementation is timely allocated and provided. The Borrower, through its Ministry of Construction and Urban Development, shall continue operation of current PMU and further ensure that qualified staffs are added to the PMU in a timely manner.

#### Governance and Anticorruption

21. The Borrower shall (a) comply with ADB's Anticorruption Policy (1998, as amended to date) and acknowledge that ADB reserves the right to investigate directly, or through its agents, any alleged corrupt, fraudulent, collusive, or coercive practice relating to the Project facilities; and (b) cooperate with any such investigation and extend all necessary assistance for satisfactory completion of such investigation.

22. The Borrower shall ensure that the anticorruption provisions acceptable to ADB are included in all bidding documents and contracts, including provisions specifying the right of ADB to audit and examine the records and accounts of the executing and implementing agencies and all contractors, suppliers, consultants, and other service providers as they relate to the Project.