Financing Agreement
(Ulaanbaatar Heating Sector Improvement Project)

between

MONGOLIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION
FINANCING AGREEMENT

AGREEMENT dated as of the Signature Date between MONGOLIA ("Recipient") and INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association"). The Recipient and the Association hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined in the Appendix to this Agreement) apply to and form part of this Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — FINANCING

2.01. The Association agrees to extend to the Recipient a credit, which is deemed as Concessional Financing for purposes of the General Conditions, in an amount equivalent to twenty-nine million nine hundred thousand Special Drawing Rights Special Drawing Rights (SDR 29,900,000) (variously, "Credit" and "Financing"), to assist in financing the project described in Schedule 1 to this Agreement ("Project").

2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section III of Schedule 2 to this Agreement.

2.03. The Maximum Commitment Charge Rate is one-half of one percent (1/2 of 1%) per annum on the Unwithdrawn Financing Balance.

2.04. The Service Charge is three-fourths of one percent (3/4 of 1%) per annum on the Withdrawn Credit Balance.

2.05. The Interest Charge is one and a quarter percent (1.25%) per annum on the Withdrawn Credit Balance.

2.06. The Payment Dates are June 1 and December 1 in each year.
2.07. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.

2.08. The Payment Currency is Dollar.

ARTICLE III — PROJECT

3.01. The Recipient declares its commitment to the objective of the Project. To this end, the Recipient shall carry out the Project in accordance with the provisions of Article V of the General Conditions and Schedule 2 to this Agreement.

ARTICLE IV — EFFECTIVENESS; TERMINATION

4.01. The Additional Conditions of Effectiveness consist of the following:

(a) the Recipient has adopted the Operations Manual in form and substance satisfactory to the Association; and

(b) the Recipient has established the Project Management Office with a mandate, composition, and terms of reference satisfactory to the Association.

4.02. The Effectiveness Deadline is the date one hundred eighty (180) days after the Signature Date.

4.03. For purposes of Section 10.05 (b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty (20) years after the Signature Date.

ARTICLE V — REPRESENTATIVE; ADDRESSES

5.01. The Recipient’s Representative is its Minister at the time responsible for finance.

5.02. For purposes of Section 11.01 of the General Conditions:

(a) the Recipient’s address is:

   Ministry of Finance
   Government Building II
   S. Danzan Street 5/1 D
   Ulaanbaatar 15160
Mongolia and

(b) the Recipient's Electronic Address is:

Facsimile:
976-11-320247

5.03. For purposes of Section 11.01 of the General Conditions:

(a) The Association's address is:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America; and

(b) the Association's Electronic Address is:

Telex: Facsimile:
248423 (MCI) 1-202-477-6391
AGREED as of the Signature Date.

MONGOLIA

By

[Signature]

Authorized Representative

Name: Ch. Khurelbataar

Title: Minister for Finance

Date: April 27, 2020

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

[Signature]

Authorized Representative

Name: Andrei Mikhail

Title: Country Manager for Mongolia

Date: April 27, 2020
SCHEDULE 1

Project Description

The objective of the Project is to expand capacity and improve efficiency of the district heating network in selected Project Areas.

The Project consists of the following parts:

Part 1: Rehabilitation and Expansion of District Heating Network

Carrying out a program of activities to support the preparation and implementation of priority investments for the district heating system operated by UBDHC, including:

1.1. Rehabilitation and upgrading of the district heating network in selected existing service areas, through the replacement of selected existing transmission pipelines with the new pipelines.

1.2. Expansion of the district heating network into selected Ger Areas, through the expansion and constructions of transmission pipelines.

1.3. Modernization of the district heating pumping stations, through the replacement of selected pumps with smart booster pumps and/or heat exchangers.

Part 2: Capacity Strengthening and Project Implementation Support

Provision of technical and operational support for:

2.1. Strengthening operational and fiduciary functions of UBDHC, and improving the capacity of key stakeholders in sector planning and regulation, and institutional arrangement.

2.2. Project implementation, including: planning and execution, procurement, financial management, environmental and social management, and monitoring and evaluation.
SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements.

1. The Recipient shall maintain, throughout the period of implementation of the Project, Project implementation structures at the national and sub-national levels, all with composition, functions, staffing and resources satisfactory to the Association and set out in the Operations Manual.

2. Without limitation to foregoing, the Recipient shall, through MOE: (a) maintain a Project Management Office, which shall be responsible, inter alia, for the overall day-to-day implementation of the Project, including: (i) preparing annual work plans and budgets, (ii) processing procurement, financial management, environmental and social management, and (iii) monitoring and evaluation of the Project; and (iv) coordinating with UBDHC on relevant technical aspects during Project implementation; and (b) by three (3) months from the Effective Date, cause UBDHC to establish and thereafter maintain a technical team on terms of reference and with qualifications acceptable to the Association to provide technical support for the implementation of the Project.

B. Subsidiary Agreement

1. To facilitate the carrying out Part 1 of the Project, the Recipient shall make parts of the proceeds of the Financing available to UBDHC in accordance with the Subsidiary Agreement between the Recipient, through its MOF and the UBDHC under terms and conditions acceptable by the Association, which shall include, inter alia:

   (a) A description of the eligible activities under Part 1 of the Project and expenditures to be financed out of the proceeds of the Financing;

   (b) The obligations of the UBDHC to:

       (i) ensure that the activities under Part 1 of the Project are carried out with due diligence and efficiency and in accordance with appropriate technical, economic, financial, and managerial practices, including in accordance with the provisions of the Operations Manual, the ESCP (including the management tools and instruments referred to therein) and the Anti-Corruption
Guidelines applicable to recipients of Financing proceeds other than the Recipient;

(ii) provide or cause to be provided, promptly as needed, the resources required for the purpose of carrying out the activities under Part 1 of the Project;

(iii) ensure that the goods, works, and services to be financed out of the Financing proceeds are procured in accordance with the provisions of the Procurement Regulations and as further specified in the Operations Manual;

(iv) monitor and report in accordance with indicators acceptable to the Association, the progress of the activities under Part 1 of the Project and the achievement of their objectives;

(v) (A) comply with financial management requirements in accordance with the provisions of the Operations Manual; and (B) at the Recipient’s or the Association’s request, have its financial statements audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association, and promptly furnish the statements as so audited to the Recipient or the Association;

(vi) enable the Recipient and the Association to inspect the activities under Part 1 of the Project, their operation and any relevant records and documents; and

(vii) prepare and furnish or cause to be prepared and furnished to the Recipient and the Association all such information as the Recipient or the Association shall reasonably request relating to the foregoing; and

(c) the right of the Recipient, through the MOF, to suspend or terminate the right of the UBDHC to use the proceeds of the Financing, or obtain a refund of all or any part of the amount of the proceeds of the Financing then withdrawn, upon the UBDHC’s failure to perform any of its obligations under the Subsidiary Agreement.

2. The Recipient shall, through the MOF, exercise its respective rights and perform its respective obligations under the Subsidiary Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive any Subsidiary Agreement or any of its provisions.
C. **Operations Manual**

The Recipient shall ensure that the Project is carried out in accordance with the arrangements and procedures set out in the Operations Manual (provided, however, that in the event of any conflict between the arrangements and procedures set out in the Operations Manual and the provisions of this Agreement, the provisions of this Agreement shall prevail) and shall not amend, abrogate or waive any provision of the Operations Manual unless the Association has provided its prior no-objection thereof in writing.

D. **Environmental and Social Standards.**

1. The Recipient shall ensure that the Project is carried out in accordance with the Environmental and Social Standards, in a manner acceptable to the Association.

2. Without limitation upon paragraph 1 above, the Recipient shall ensure that the Project is implemented in accordance with the Environmental and Social Commitment Plan (“ESCP”), in a manner acceptable to the Association. To this end, the Recipient shall ensure that:

   (a) the measures and actions specified in the ESCP are implemented with due diligence and efficiency, and as further specified in the ESCP;

   (b) sufficient funds are available to cover the costs of implementing the ESCP;

   (c) policies, procedures and qualified staff are maintained to enable it to implement the ESCP, as further specified in the ESCP; and

   (d) the ESCP or any provision thereof, is not amended, revised or waived, except as the Association shall otherwise agree in writing and the Recipient has, thereafter, disclosed the revised ESCP.

3. In case of any inconsistencies between the ESCP and the provisions of this Agreement, the provisions of this Agreement shall prevail.

4. The Recipient shall:

   (a) take all measures necessary on its part to collect, compile, and furnish to the Association through regular reports, with the frequency specified in the ESCP, and promptly in a separate report or reports, if so requested by the Association, information on the status of compliance with the ESCP and the management tools and instruments referred to therein, all such reports in form and substance acceptable to the Association, setting out, inter alia: (i) the status of implementation of the ESCP; (ii) conditions, if any, which interfere or threaten to interfere with the implementation of the
ESCP; and (iii) corrective and preventive measures taken or required to be taken to address such conditions; and

(b) promptly notify the Association of any incident or accident related to or having an impact on the Project which has, or is likely to have, a significant adverse effect on the environment, the affected communities, the public or workers, in accordance with the ESCP, the instruments referenced therein and the Environmental and Social Standards.

5. The Recipient shall maintain and publicize the availability of a grievance mechanism, in form and substance satisfactory to the Association, to hear and determine fairly and in good faith all complaints raised in relation to the Project, and take all measures necessary to implement the determinations made by such mechanism in a manner satisfactory to the Association.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

The Recipient shall furnish to the Association each Project Report not later than forty-five (45) days after the end of each calendar semester, covering the calendar semester.

B. Mid-term Review

The Recipient shall: (a) on or about the date thirty (30) months after the Effective Date, prepare and furnish to the Association a mid-term report, in such detail as the Association shall reasonably request, documenting progress achieved in the carrying out of the Project during the period preceding the date of such report, taking into account the monitoring and evaluation activities performed pursuant to Part A of this Section II, and setting out the measures recommended to ensure the continued efficient carrying out of the Project and the achievement of its objectives during the period following such date; and (b) review with the Association such mid-term report, on or about the date forty-five (45) days after its submission, and thereafter take all measures required to ensure the continued efficient implementation of the Project and the achievement of its objectives, based on the conclusions and recommendations of the mid-term report and the Association’s views on the matter.
Section III. **Withdrawal of the Proceeds of the Financing**

A. **General**

Without limitation upon the provisions of Article II of the General Conditions and in accordance with the Disbursement and Financial Information Letter, the Recipient may withdraw the proceeds of the Financing to finance 100% of Eligible Expenditures consisting of goods, works, consulting services, non-consulting services, Training, and Operating Costs, inclusive of Taxes.

B. **Withdrawal Conditions; Withdrawal Period**

1. Notwithstanding the provisions of Part A above, no withdrawal shall be made for payments made prior to the Signature Date, except that withdrawals up to an aggregate amount not to exceed SDR 5,980,000 may be made for payments made prior to the Signature Date but on or after August 1, 2019 for Eligible Expenditures.

2. The Closing Date is December 31, 2025.
SCHEDULE 3

Repayment Schedule

<table>
<thead>
<tr>
<th>Date Payment Due</th>
<th>Principal Amount of the Credit repayable (expressed as a percentage)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each June 1 and December 1:</td>
<td></td>
</tr>
<tr>
<td>commencing June 1, 2025 to and including December 1, 2044</td>
<td>1.65%</td>
</tr>
<tr>
<td>commencing June 1, 2045 to and including December 1, 2049</td>
<td>3.40%</td>
</tr>
</tbody>
</table>

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.05 (b) of the General Conditions.
APPENDIX

Definitions

1. “Anti-Corruption Guidelines” means, for purposes of paragraph 5 of the Appendix to the General Conditions, the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011 and as of July 1, 2016.

2. “Environmental and Social Commitment Plan” or the acronym “ESCP” means the Recipient’s environmental and social commitment plan, acceptable to the Association, dated March 11, 2020, which sets out a summary of the material measures and actions to address the potential environmental and social risks and impacts of the Project, including the timing of the actions and measures, institutional, staffing, training, monitoring and reporting arrangements, and any instruments to be prepared thereunder; as the ESCP may be revised from time to time, with prior written agreement of the Association, and such term includes any annexes or schedules to such plan.


5. “Ger Areas” means the peri-urban areas in the Recipient’s city of Ulaanbaatar.

7. “MOF” means the Recipient’s Ministry of Finance, or any successor thereto.

8. “Operating Costs” means the reasonable costs of goods and non-consulting services required for the day-to-day coordination, administration and supervision of Project activities, including leasing and/or routine repair and maintenance of vehicles, equipment, facilities and office premises, fuel, office supplies, utilities, consumables, communication expenses (including postage, telephone and internet costs), transportation, translation, printing and photocopying expenses, bank charges, publications and advertising expenses, insurance, Project-related meeting expenses, Project-related travel, subsistence and lodging expenses, contractual support staff and other administrative costs directly related to the Project, but excluding salaries, bonuses, fees and honoraria or equivalent payments of members of the Recipient’s civil service.

9. “Operations Manual” means the manual to be adopted by the Recipient for the implementation of the Project referred to in Section I.C of Schedule 2 to this Agreement, containing detailed arrangements and procedures for: (a) institutional coordination and day-to-day execution of the Project; (b) disbursement and financial management; (c) procurement; (d) environmental and social safeguard implementation measures; (e) monitoring and evaluation, reporting and communication; (f) an integrity action plan, (g) eligibility criteria and detailed arrangements and procedures for the identification, appraisal and implementation of specific activities under Part 1 of the Project; and (h) such other administrative, financial, technical and organizational arrangements and procedures as shall be required for the Project; as said manual may be modified from time to time with the prior written approval of the Association, and such term includes any schedules to such manual.

10. “Procurement Regulations” means, for purposes of paragraph 87 of the Appendix to the General Conditions, the “World Bank Procurement Regulations for IPF Borrowers”, dated July 2016, revised November 2017 and August 2018.

11. “Project Areas” means the selected areas within the Recipient’s city of Ulaanbaatar, as agreed with the Association.

12. “Project Management Office” means a unit to be established and maintained by the Recipient; as referred to in Section I.A.2 of Schedule 2 to this Agreement, or any successor thereto.

13. “Signature Date” means the later of the two dates on which the Recipient and the Association signed this Agreement and such definition applies to all references to “the date of the Financing Agreement” in the General Conditions.

tours under the Project, including travel and subsistence costs for training, workshop and study tour participants, costs associated with securing the services of trainers, rental of training and workshop facilities, preparation and reproduction of training and workshop materials, and other costs directly related to training course, workshop or study tour preparation and implementation, but excluding consultants’ fees and salaries, bonuses, fees and honoraria or equivalent payments of members of the Recipient’s civil service.

15. “UBDHC” means the Ulaanbaatar District Heating Company, established under the Resolution Number 164 issued by the Government of Mongolia on July 9, 2001 and operating in accordance with the laws of the Recipient, or any successor thereto; and for purposes of the General Conditions, the “Project Implementing Entity”.