

CONFORMED COPY

CREDIT NUMBER 2973 MOG

Project Agreement

(Ulaanbaatar Services Improvement Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

MUNICIPALITY OF ULAANBAATAR

Dated July 31, 1997

CREDIT NUMBER 2973 MOG

PROJECT AGREEMENT

AGREEMENT, dated July 31, 1997 between the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and Municipality of Ulaanbaatar (MUB).

WHEREAS (A) by the Development Credit Agreement of even date herewith between Mongolia (the Borrower) and the Association, the Association has agreed to lend to the Borrower an amount in various currencies equivalent to twelve million three hundred thousand Special Drawing Rights (SDR 12,300,000) on the terms and conditions set forth in the Development Credit Agreement, but only on condition that MUB agree to undertake such obligations toward the Association as are set forth in this Agreement; and

(B) by a subsidiary loan agreement to be entered into between the Borrower and MUB (the MUB Subsidiary Loan Agreement) the proceeds of the Credit provided for under the Development Credit Agreement will be made available to MUB on terms and conditions set forth in the MUB Subsidiary Loan Agreement; and

WHEREAS MUB in consideration of the Association's entering into the Development Credit Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Development Credit Agreement and in the General Conditions (as so defined) have

the respective meanings therein set forth.

## ARTICLE II

### Execution of the Project

Section 2.01. (a) MUB declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Development Credit Agreement, and, to this end, shall:

(i) carry out Parts C, D.1, D.2 and D.3 of the Project (the MUB Parts of the Project); and

(ii) cause USAG to carry out Parts A, B and D.4 of the Project (the USAG Parts of the Project); all with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, and environmental practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Association and MUB shall otherwise agree, MUB shall carry out the Project or cause the Project to be carried out in accordance with the Implementation Program set forth in Schedule 2 to this Agreement.

Section 2.02. Except as the Association shall otherwise agree, procurement of the goods, works, and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 1 to this Agreement.

Section 2.03. (a) MUB shall carry out the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition) in respect of the Project Agreement.

(b) For the purposes of Section 9.07 of the General Conditions and without limitation thereto, MUB shall:

(i) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Association and MUB, a plan for the future operation of the Project; and

(ii) afford the Association a reasonable opportunity to exchange views with the Borrower and MUB on said plan.

Section 2.04. MUB shall duly perform all its obligations under the MUB Subsidiary Loan Agreement. Except as the Association shall otherwise agree, MUB shall not take or concur in any action which would have the effect of assigning, amending, abrogating or waiving the MUB Subsidiary Loan Agreement or any provision thereof.

Section 2.05. (a) MUB shall, at the request of the Association, exchange views with the Association with regard to the progress of the Project, the performance of its obligations under this Agreement and under the MUB Subsidiary Loan Agreement, and other matters relating to the purposes of the Credit.

(b) MUB shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Credit, or the performance by MUB of its obligations under this Agreement and under the MUB Subsidiary Loan Agreement.

## ARTICLE III

### Financial Covenants

Section 3.01. (a) MUB shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of MUB responsible for carrying out the MUB Parts of the Project.

(b) MUB shall:

(i) have the records and accounts referred to in paragraph (a) of this Section or each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association, as soon as available, but in any case not later than six months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(iii) furnish to the Association such other information concerning said records and accounts and the audit thereof as the Association shall from time to time reasonably request.

#### ARTICLE IV

Effective Date; Termination;  
Cancellation and Suspension

Section 4.01. This Agreement shall come into force and effect on the date upon which the Development Credit Agreement becomes effective.

Section 4.02. This Agreement and all obligations of the Association and of MUB thereunder shall terminate on the date on which the Development Credit Agreement shall terminate and the Association shall promptly notify MUB thereof.

Section 4.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

#### ARTICLE V

Miscellaneous Provisions

Section 5.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other addresses as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the Association:

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

Cable address:

INDEVAS  
Washington, D.C.

Telex:

248423 (MCI) or  
64145 (MCI)

For Municipality of Ulaanbaatar:

Sukhbaatar square-11  
Ulaanbaatar-46  
Mongolia

Telex:

(c/o Ministry of Finance):  
719-79241

Section 5.02. Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Agreement on behalf of MUB or by MUB on behalf of the Borrower under the Development Credit Agreement, may be taken or executed by its Mayor, or by such other person or persons as said Mayor shall designate in writing, and said Mayor shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 5.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Ngozi Okonjo-Iweala

Authorized Representative

MUNICIPALITY OF ULAANBAATAR

By /s/ P. Tsagaan

Authorized Representative

SCHEDULE 1

Procurement

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B: (a) Grouping of contracts To the extent practicable, contracts for works shall be grouped in bid packages estimated to cost \$700,000 equivalent or more each, and contracts for goods shall be grouped in bid packages estimated to cost \$1,000,000 equivalent or more

each.

(b) Preference for domestic contractors The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to works to be carried out by domestic contractors.

Part C: Other Procurement Procedures

1. National Competitive Bidding Works estimated to cost less than \$500,000 equivalent per contract, up to an aggregate amount not to exceed \$6,600,000 equivalent, and goods estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$500,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines and in accordance with procedures acceptable to the Association.

2. International Shopping Goods estimated to cost less than \$60,000 equivalent per contract, up to an aggregate amount not to exceed \$300,000 equivalent, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Direct Contracting/Force Account

Works for installation of meters and repair of plumbing fixtures estimated to cost less than \$20,000 equivalent per contract, up to an aggregate amount not to exceed \$200,000 equivalent may, with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.7 or 3.8 of the Guidelines.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract for works or goods estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Quality-based Selection

Services for the development of a maintenance system and for network modeling under Part D.4 of the Project may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Least-cost Selection

Auditing services to be provided under Part D.1 of the Project, estimated to cost less than \$100,000 equivalent per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

3. Single Source Selection

Design and supervision services to be provided under Part D.1 of the Project which are estimated to cost less than \$100,000 equivalent per contract, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

4. Individual Consultants

Supervision services to be provided under Part D.1 of the Project for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Association of the Selection of Consultants

1. Selection Planning Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$50,000 or more, but less than the equivalent of \$200,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$20,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 1 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 2

Implementation Program

For the purposes of Section 2.01(b) of this Agreement, the Implementation Program shall consist of the provisions set forth below.

A. Project Management MUB shall maintain throughout the implementation of the Project, a project management unit (PMU) staffed by qualified staff in adequate numbers and with functions and responsibilities acceptable to the Association, including responsibility for the overall coordination and supervision of Project execution.

B. MUB Water Sector

1. MUB shall implement the Sector Improvement Action Plan and submit any proposed revision to said plan to the Association for its prior approval.

2. MUB shall by December 31, 1997 consolidate its ger area water distribution activities into USAG.

C. Environment

MUB shall take, and shall cause USAG to take, all measures necessary to ensure that the Project shall be carried out in accordance with the Environmental Management Plan.

D. USAG Parts of the Project

1. For the purposes of the USAG Parts of the Project, MUB shall relend the proceeds of the Credit allocated from time to time to Categories 1, 2 and 3(b) of the table in paragraph 1 of Schedule 1 to this Agreement to USAG under a subsidiary loan agreement to be entered into between MUB and USAG (the USAG Subsidiary Loan Agreement) under terms and conditions which shall have been approved by the Association, and which shall include, without limitation, those set forth in Schedule 3 to this Agreement.

2. (a) MUB shall cause USAG to:

(i) perform, in accordance with the provisions of the USAG Subsidiary Loan Agreement, all of the obligations of USAG therein set forth;

(ii) take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable USAG to perform such obligations; and

(iii) not take or permit to be taken any action which would prevent or interfere with such performance; and

(b) MUB shall exercise its rights under the USAG Subsidiary Loan Agreement in such manner as to protect the interests of the Borrower, the Association and MUB and to accomplish the purposes of the Credit, and except as the Association shall otherwise agree, not assign, amend, abrogate or waive the Subsidiary Loan Agreement or any provision thereof.

E. MUB Parts of the Project

1. MUB shall carry out Part C of the Project in accordance with a program (the Ger Infrastructure Improvement Program) acceptable to the Association and shall submit any revision to such program to the Association for its prior approval.

2. To improve the sustainability of the Ger Infrastructure Improvement Program, MUB shall, not later than the commencement of works under the said program, introduce user charges for ger improvements payable by ger residents covered by said program, at levels acceptable to the Association, which will be used to finance further ger area infrastructure improvements.

3. MUB shall: (i) not later than the commencement of works under the Ger Infrastructure Improvement Program, develop and adopt a scheme, acceptable to the Association, to ensure that the benefits of ger area infrastructure improvements resulting from the implementation of the Ger Infrastructure Improvement Program shall accrue to the residents of ger areas covered by the said program; (ii) implement such

scheme in accordance with its terms; and (iii) submit any proposed revisions to such scheme to the Association for its prior approval.

4. In order to improve MUB's land use management and integrate ger areas into the overall urban development plan, MUB shall: (i) carry out a study regarding medium-term development and planning of ger areas in MUB, including definition of appropriate levels of public services, in accordance with terms of reference acceptable to the Association; (ii) by December 31, 1998 furnish to the Association for comments said study and the recommendations resulting from the study; and (iii) thereafter take said recommendations into account in its urban development planning.

5. MUB shall: (i) carry out a study to determine alternatives to fund ger area refuse collection, in accordance with terms of reference acceptable to the Association; (ii) by July 1, 1998, furnish to the Association for comments said study and the recommendations resulting from the study; (iii) not later than December 31, 1998 prepare a time-bound action plan acceptable to the Association to implement said recommendations; and (iv) thereafter, implement said action plan in accordance with its terms.

6. MUB shall implement Parts D.1 and D.2 of the Project in accordance with the Sector Improvement Action Plan.

#### F. Monitoring and reporting

##### 1. Monitoring

MUB shall maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators set forth in Schedule 4 to this Agreement, the carrying out of the Project, as well as the achievement of the objectives thereof.

##### 2. Reporting

MUB shall prepare, under terms of reference acceptable to the Association, and furnish to the Association, the following reports: (a) semi-annual reports not later than April 30, and October 30 in each year, integrating the results of the monitoring and evaluation activities performed pursuant to paragraph 1 above, on the progress achieved in the carrying out of the Project during the six calendar months immediately preceding the month in which the report is due and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the then current six month period, and (b) a mid-term report not later than October 30, 1999, integrating the results of the monitoring and reporting activities performed pursuant to paragraphs 1 and 2 (a) above, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof.

##### 3. Consultation

After furnishing each report referred to in paragraph 2 above, MUB shall review said report with the Association, and promptly take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of said report and the Association's views on the matter.

### SCHEDULE 3

#### Principal Terms and Conditions of the USAG Subsidiary Loan Agreement

The principal terms and condition set forth or referred to in this Schedule 3 shall apply for the purposes of Part D.1 of Schedule 2 to this Agreement.

#### A. Terms

1. The principal amount of the subsidiary loan repayable by USAG shall be the equivalent in Tugrik (determined as of the date, or respective dates, of withdrawal)



of amounts allocated to and withdrawn from Categories 1, 2 and 3(b).

2. Such principal amount shall be repaid by USAG in Tugrik to MUB in semi-annual installments over twenty years, including a grace period of five years.

3. Interest shall be charged on the outstanding balance of the said subsidiary loan at a rate equal to 5% per annum.

B. Conditions

The USAG Subsidiary Loan Agreement shall include the following principal conditions:

1. USAG shall undertake to carry out the USAG Parts of the Project with due diligence and efficiency and in accordance with appropriate financial, engineering, and administrative practices, as well as appropriate health and safety standards acceptable to the Association, and provide, promptly as needed, the funds, facilities and other resources required for the purpose.

2. USAG shall take all measures necessary to ensure that the USAG Parts of the Project shall be implemented in accordance with the Environmental Management Plan.

3. USAG shall implement the USAG Institutional Development Plan and submit revisions to said plan to the Association for its prior approval.

4. USAG shall undertake to procure the goods and services to be financed out of the proceeds of the Credit in accordance with the provisions of Schedule 1 to this Agreement, and utilize such goods and services exclusively in the carrying out the USAG Parts of the Project.

5. USAG shall undertake to enable the Association and MUB to inspect such goods and the sites and works included in the USAG Parts of the Project, the operation thereof, and any relevant records and documents.

6. USAG shall undertake to take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice, including, without limitation, such insurance to cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Credit to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by USAG to replace or repair such goods.

7. USAG shall, as of not later than December 31, 1998, maintain separate accounts for its water supply and sewage operations.

8. USAG shall undertake to:

(a) maintain records and accounts adequate to reflect in accordance with consistently maintained sound accounting practices its operations and financial condition;

(b) have its financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(c) furnish to MUB and to the Association, as soon as available, but in any case not later than six months after the end of each such year:

(i) certified copies of said financial statements and accounts for such year as so audited; and

(ii) the report of such audit by said auditors in such scope and detail as MUB and the Association shall have reasonably requested; and

(d) prepare and furnish to the Association and MUB all such other information

concerning said records, accounts and financial statements, as well as the audit thereof, as the Association and/or MUB shall reasonably request.

9. USAG shall, throughout the implementation of the Project, starting with its fiscal year commencing on January 1, 1998, increase expenditures for maintenance and repair of its facilities by 10% per annum in real terms and record such expenditures separately in its accounts.

10. USAG shall equalize the unit water tariff for apartment residents and ger area residents promptly upon the completion of Part A.2 of the Project.

11. (a) USAG shall produce for each of its fiscal years after its fiscal year ending on December 31, 1997, total revenues equivalent to not less than the sum of its (i) total operating expenses; and (ii) the amount by which debt service requirements exceed the provision for depreciation.

(b) By April 15 and October 15 in each of its fiscal years, USAG shall, on the basis of forecasts prepared by USAG and satisfactory to the Association and MUB, review whether it would meet the requirements set forth in paragraph (a) in respect of such year and the next following fiscal year and shall furnish to the Association the results of such review upon its completion.

(c) If any such review shows that USAG would not meet the requirements set forth in paragraph (a) for USAG's fiscal years covered by such review, USAG shall promptly take all necessary measures (including, without limitation, adjustments of the structure or levels of its tariffs in order to meet such requirements.

(d) For purposes of this Part 11:

(i) The term "total revenues" means the sum of total operating revenues and net non-operating income.

(ii) The term "total operating revenues" means revenues from all sources related to operations.

(iii) The term "net non-operating income" means the difference between: (A) revenues from all sources other than those related to operations; and (B) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above.

(iv) The term "total operating expenses" means all expenses related to operations, including administration, adequate maintenance, taxes and payments in lieu of taxes, and provision for depreciation on a straight-line basis at a rate of not less than 2% per annum of the average current gross value of USAG's fixed assets in operation, or other basis acceptable to the Association, but excluding interest and other charges on debt.

(v) The average current gross value of USAG's fixed assets in operation shall be calculated as one half of the sum of the gross value of USAG's fixed assets in operation at the beginning and at the end of the fiscal year, as valued from time to time in accordance with sound and consistently maintained methods of valuation satisfactory to the Association.

(vi) The term "debt service requirements" means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.

(vii) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of Borrower, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence

of such rate, on the basis of a rate of exchange acceptable to the Association.

12. In consideration for services provided by the PMU to USAG under the Project, USAG shall pay MUB amounts acceptable to the Association.

13. MUB shall have the right to suspend or terminate the right of USAG to the use of the proceeds of the subsidiary loan extended to it by MUB under this Agreement upon failure by USAG to perform its obligations under the USAG Subsidiary Loan Agreement.

#### SCHEDULE 4

##### MONITORING INDICATORS

###### 1. Poverty Alleviation

Number and percentage of water kiosks served by a piped supply versus targets

Ratio of the unit price of water to ger areas and to apartments to become one by end of project period

Number of ger plots with access to footpath/road within 50 meters

Per capita ger consumption of water

User charges collected for Ger Infrastructure Improvement Program

###### 2. Efficiency Enhancement

Decline in per capita water consumption in apartment buildings

Collection rates of water revenues for: (i) apartments and (ii) institutions and businesses

Amount of water delivered by truck

Ratio of population served by USAG water supply to total number of USAG staff.

###### 3. Capacity Building

Number of water meters installed under project

Actual vs. planned budget expenditures for system maintenance

Ratio of USAG's operating revenue to expenditures

